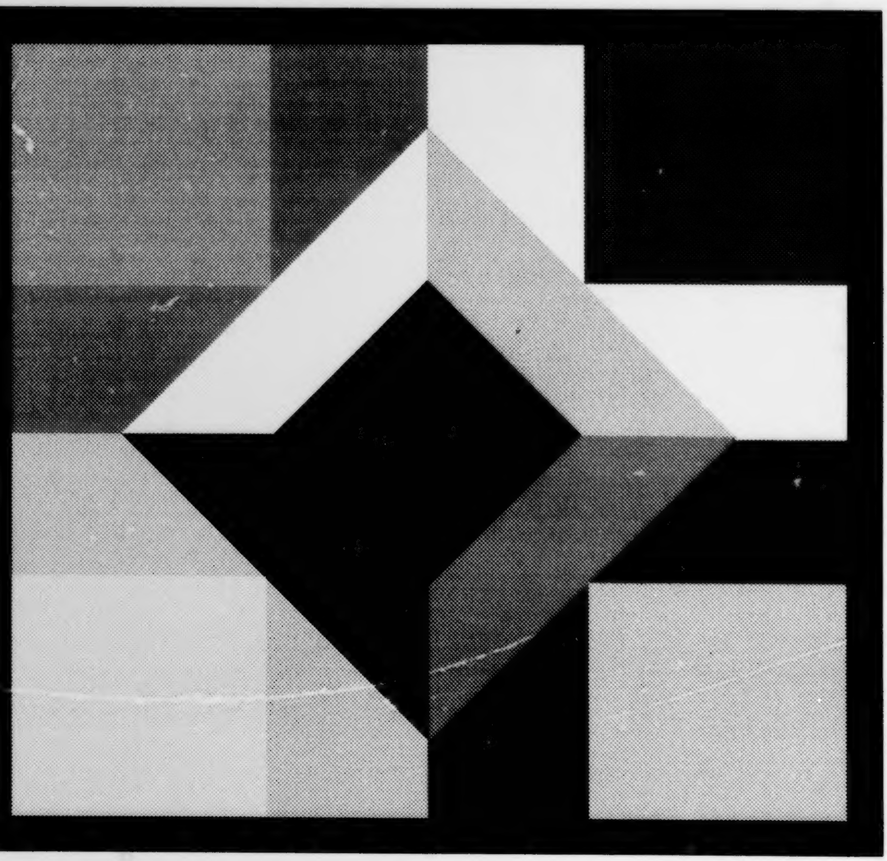
UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

EXPANSION OF TRADING OPPORTUNITIES TO THE YEAR 2000 FOR ASIA-PACIFIC DEVELOPING COUNTRIES:

NATIONAL STRATEGIES AND INSTITUTIONAL FRAMEWORKS FOR EXPORT EXPANSION



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EXPANSION OF TRADING OPPORTUNITIES TO THE YEAR 2000 FOR ASIA-PACIFIC DEVELOPING COUNTRIES

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EXPLANATORY NOTES

The term dollar ($) refers to United States dollars, unless otherwise stated.

The term "billion" signifies 1,000 million and "trillion" 1,000 billion.

The term "tons" refers to metric tons.

Annual rates of growth and change refer to compound rates.

Exports are valued f.o.b. and imports c.i.f., unless otherwise specified.

Use of a hyphen (-) between dates representing years, e.g. 1988-1990, signifies the full period involved, including the initial and final years.

An oblique stroke (/) between two years, e.g. 1990/91, signifies a fiscal or crop year.

Two dots (..) or "n.a." indicate that the data are not available, or are not separately reported.

A dash (-) or a zero (0) indicates that the amount is nil or negligible.

A plus sign (+) before a figure indicates an increase; a minus sign (-) before a figure indicates a decrease.

Details and percentages do not necessarily add to totals, owing to rounding.

ABBREVIATIONS

ACP	African, Caribbean and Pacific (group of States)
AFTA	Asian Free Trade Agreement
AMS	aggregate measure of support
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South-East Asian Nations
c.i.f.	cost insurance, freight
CIS	Commonwealth of Independent States
CVD	countervailing duty
CMEA	Council for Mutual Economic Assistance
DC	developing country
DMEC	developed market-economy country
dwt	deadweight tons
EAEC	East Asian Economic Cooperation
ECO	Economic Cooperation Organization
EFTA	European Free Trade Association
EPZ	export processing zone
ESCAP	Economic and Social Commission for Asia and the Pacific
EU	European Union
FDI	foreign direct investment
f.o.b.	free on board
GATT	General Agreement on Tariffs and Trade
GDI	gross domestic investment
GDP	gross domestic product
GNP	gross national product
GSP	generalized system of preferences
IFC	International Finance Corporation
IMF	International Monetary Fund
IPR	international property right
ISO	International Organization for Standardization
ITC	International Trade Centre UNCTAD/GATT
LDC	least developed country
LNG	liquified natural gas
MFA	Multi-Fibre Arrangement
NFN	most favoured nation
NAFTA	North American Free Trade Agreement

NIE	newly industrializing economy
NRBP	natural resource-based product
NTM	non-tariff measure
ODA	official development assistance
OECD	Organisation for Economic Cooperation and Development
PEC	Pacific Economic Cooperation Council
R & D	research and development
RTA	regional trading arrangement
SAARC	South Asian Association for Regional Cooperation
S & D	special and differential treatment
SAPTA	South Asian Preferential Trading Arrangement
SITC	Standard International Trade Classification
SME	small and medium-sized enterprise
SMI	small and medium-sized industry
SPARTECA	South Pacific Regional Trade and Economic Cooperation Agreement
SPPF	South Pacific Project Facility (World Bank)
TPO	trade promotion organization
TPRM	Trading Policy Review Mechanism
TRIMs	Trade-related investment measures
TRIPs	Trade-related intellectual property rights
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
VAT	value added tax
VER	voluntary export restraint
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

PREFACE

The world economy is at a crossroad. The recession and stagnation that have plagued OECD countries in the last years have abated and there seems to be a turnaround, with signs of recovery in the United States and to some extent in some European countries.

The recent successful completion of the Uruguay Round has avoided what could have been a major crisis in international trade relations and points to a better and more secure framework for trade among nations which could lead to a major expansion of international trade by the year 2000. The challenge for many developing countries is to take full advantage of the new opportunities. It is hoped that the Workshop to which this volume is devoted can serve as a modest beginning in helping to delineate a strategy for trade expansion for Asia-Pacific developing countries in this new environment.

Despite the difficulties in the world economy, many countries in the region have done remarkably well so far in the 1990s. The challenge for these countries is to sustain this momentum throughout the decade and for other countries in the region to share in this dynamism.

The lessons to be learnt from the region's experience in export performance are of immense interest to the world at large. The Workshop had before it a paper reviewing the experience of a number of countries and territories with regard to export strategies utilized as well as the institutional framework in which they were applied. High-level trade officials, from both the public and the private sector, experts in the field, as well as experts from multilateral agencies (ESCAP, IFC, and ADB) helped in distilling the main lessons to be learnt. Developments in the countries reviewed did not, however, take place in a vacuum. Important developments, encompassing both challenges and opportunities, are taking place in the world which impinge directly on the policies being pursued. That is why the Workshop also devoted some attention to the prospects and opportunities for trade in the context of the trends in the world economy and of the changing trading environment, in particular the completion of the Uruguay Round. Moreover, in the last decade the investment potential and the investment climate in most of the Asia-Pacific countries have enabled the region to emerge as a major host to foreign direct investment (FDI), which has no doubt contributed to its economic and export performance. Some attention has therefore been given to the prospects for continued flows of FDI to the region in the 1990s, having regard to the global competition for such flows.

Sustained export growth of developing countries depends crucially on three major factors: first, an open international trading system, offering the fullest access to export markets; second, the existence of internationally competitive supply capabilities; and third, the existence of a supportive institutional infrastructure to take full advantage of market opportunities. A successful export strategy must be based on an interactive approach to supply, demand and export marketing. Underlying this approach is the very close cooperation which must be established between the Government and the business community in formulating policies for export expansion.

PART I

GENERAL FINDINGS

INTRODUCTION

The Workshop on Expansion of Trading Opportunities to the Year 2000 for Asia-Pacific Developing Counties was held in Jakarta, Indonesia, from 6 to 9 June 1994. The focus of the Workshop was on strategies for expansion of trading opportunities, including trade-related institutional systems. The Workshop represents one of many activities within the framework of a UNDP-funded inter-country technical cooperation programme entitled "Strengthening capacities for growth through Trade and Investment" (RAS/92/41). This five-year programme, which was started in October 1993, aims at assisting the developing countries in the region to accelerate their integration into an increasingly interdependent world economic and trading system, through policy reform and institutional development at both the regional and the national levels.

Seventeen countries and territories, namely Bangladesh, China, Fiji, Hong Kong, India, Indonesia, Japan, the Republic of Korea, Malaysia, Nepal, Pakistan, Philippines, Samoa, Singapore, Sri Lanka, Thailand, and VietNam, participated in the Workshop, together with representatives of the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme (UNDP), the Economic and Social Commission for Asia and the Pacific (ESCAP), the International Financial Corporation (IFC)/World Bank and the Asian Development Bank (ADB), as well as chambers of commerce of the region (see annex for the list of participants). The Workshop was jointly organized by the National Agency for Export Development (NAFED), the Ministry of Trade of Indonesia and UNCTAD. It was opened by the Indonesian Minister of Trade, H.E. Mr. Satrio B. Joedono.

Part I reproduces the conclusions and recommendations adopted by the Workshop, and contains an overview of the papers and studies presented to the Workshop. The complete texts of these papers and studies are reproduced in Parts II and III.

In keeping with a general desire to improve the quality and the usefulness of UNCTAD/UNDP Project Publications to Governments and the general public, readers are invited to send comments on this publication to: Trading Opportunities and Market Access Unit, International Trade Division, UNCTAD, Palais des Nations, 1211 Geneva, Switzerland.

It is anticipated that a sequel to this publication would focus on trading opportunities in, and on the adaptation of export strategies to, the post-Uruguay Round trading environment.

A. Conclusions and recommendations of the Workshop

Based on papers analyzing the export development experiences of 18 economies of the region, papers presented by international organizations and chambers of commerce and the discussions at the Workshop, the following broad conclusions and recommendations were adopted:

1. Trends in the world economy and their implications for the trade prospects of the Asia-Pacific developing countries

The prospect of recovery of the global economy, coupled with a consolidation of the open international trading system through the successful conclusion of the Uruguay Round of multilateral trade negotiations, augurs well for enhancing the trading opportunities of the Asia-Pacific developing countries in the coming years. The opportunities at the global level, however, would remain somewhat overshadowed by the possibility of a diversion of trade and investments stemming from the enlargement of the European Union and the conclusion of the North American Free Trade Agreement (NAFTA).

The possible loss of competitiveness due to an escalation in production costs as a consequence of new environmental and labour standards, as well as an unfair application of the intellectual property rights provisions of the Uruguay Round agreement, could further erode the competitiveness of developing countries in the markets of Europe and North America. The possible loss of market share for Asian countries in the Japanese market is also a matter of concern.

Nevertheless, strong optimism prevails in the developing Asian-Pacific economies about sustaining their impressive export performance of recent years, on the basis of the following factors:

- A rapid growth of intra-regional trade and investments in overall trade and investment flows of the region;

- The continued attractiveness of the region as a destination for FDI;

- Positive linkages between FDI and export expansion as well as technology transfer influencing the region's prospects;

- Import promotion initiatives of Japan for countries of the region;

- The determination of many countries of the region to undertake the necessary policy adjustments and economic restructuring of their economies in order to enhance export competitiveness, on the one hand, and to increase opportunities for FDI, on the other (e.g. ASEAN);

- Emerging subregional trading schemes such as (AFTA and SAPTA).

Both the eagerness to improve competitiveness and the sense of optimism are evident in the almost universal policy initiatives taken by the developing countries of the region to open their respective economies through, inter alia, adoption of liberal investment and trade policies, reduction of tariff and non-tariff barriers, and aggressive marketing. In this context of high expectations regarding growth prospects for exports and investment to the year 2000 and beyond, concern also exists that the cumulative effect could lead to market saturation and protectionist reactions in traditional markets. Such a possibility calls for urgent attention to both market and product diversification. In particular, opportunities should be more seriously explored among the countries in the region to increase trading opportunities in each other's markets through various means. Circumstances are favourable for accelerated growth of the intra-regional trade potential offered by China, India, the newly industrialized economies NIEs and ASEAN. In this regard, great potential exists for significantly increasing neighbourhood (border) trade. Any strategy for rapid expansion of trade and investment opportunities should seek to harvest potential in the region.

International organizations, including in particular those of the United Nations system, especially UNCTAD, UNDP and ESCAP, as well as the financial institutions, including in particular the Asian Development Bank (ADB), have a responsibility to assist the developing countries of the region in improving their prospects for both intraregional and interregional trade. In this context, they should urgently extend assistance in the field of trade efficiency measures, including EDI (electronic data interchange) and adoption of ISO 9000 series for quality control.

II. Implications of the Uruguay Round results for the trading opportunities of Asia-Pacific developing countries

The successful conclusion of the Uruguay Round is likely to lead to a more open and secure framework for trade among nations, which could lead to a multiple expansion of international trade by the year 2000. This favourable outcome is likely to materialize if countries, particularly the major trading nations, live up to their commitments under the Uruguay Round agreements. While these agreements will lead to open international markets in the long term (e.g. for textiles and clothing, and agriculture), there is concern that the immediate benefits could be limited. Special attention in terms of institutional and other support should be given to assisting the least developed and Pacific island countries to enable them to reap benefits from the Uruguay Round outcome and to facilitate their increased participation in regional and global trade.

There is an urgent need for national Governments to look into the ramifications of the results of the Uruguay Round for their trade and development strategy. In this context, technical assistance from international organizations such as UNCTAD, ESCAP and ADB is required to better understand the rule-making agreements, including the special provisions for the developing countries, and their implications for the policy options of the developing countries.

In order to utilize the market opportunities created by the Uruguay Round, there is need to organize seminars and workshops in developing countries to inform exporters and the private sector of the new opportunities. Technical assistance from international organizations is required in this connection.

There is also a need to give attention to new and emerging issues which were not tackled by the Uruguay Round. In this context, consideration should be given to an international competition policy to deal with the restrictive business practices of enterprises in international trade and to the impact of environmental measures on trade. As tariff and non-tariff barriers have come down, the major trading nations should avoid a search for new protectionist measures to restrict the flow of exports from developing countries.

III. Strategies for trade expansion to the year 2000, including related institutional support

The continuing globalization of the world economy in terms of markets, investments and export supply capabilities and the impetus given to this process by the trade liberalization results of the Uruguay Round provide both challenges and opportunities.

The challenge for countries of the region will be how to take full advantage of the new opportunities in a fiercely competitive global environment. To cope with this new environment, national strategies will need to be developed for building national competitiveness and for export expansion. The need of the least developed and the Pacific Island countries is particularly acute in this regard, and this group of countries needs special support and assistance from regional and multilateral agencies to enhance trading and development opportunities.

A. Strategies for export expansion

A successful strategy for export expansion will need to be based on an interactive approach to supply, demand and export marketing in a framework of close cooperation between the Government and the business community. The strategy will need to focus on export product and market diversification in a dynamic search for comparative-advantage product and market niches. Notwithstanding the various stages of economic development and specific characteristics of countries in the region, the following elements were considered to be of importance:

The overall policy framework

- Openness of the economy. (However, as the experience of some countries of the region has indicated, a highly competitive domestic economy combined with selective state intervention may also prove successful);

- Appropriate macroeconomic policies (including price stability and an appropriate exchange rate);

- Fostering of entrepreneurship and a competitive business community;

- Close partnership between the Government and the business community;

- Hassle-free regulatory framework in terms of non-bureaucratic and transparent business regulations and simplified export procedures;

- Adequate infrastructure;

- Efficient government services;

- Political stability.

To build export supply capabilities and encourage product diversification, specific measures and incentives are necessary with regard to investment finance (including foreign direct investment), technology acquisition, and human resources development, as well as direct fiscal and financial export incentives. Supportive fiscal policies such as tax deduction for export activities may be necessary. (Some countries in fact offer double tax deductions for activities related to export promotion, such as trade fairs, missions, overseas market development and promotional publications.)

To diversify markets and take full advantage of trading opportunities, attention needs to be given not only to demand conditions and market access opportunities on major world markets but also to regional markets including the opportunities for cross-border trade. Policies and measures need to be adopted to identify and facilitate exports to a variety of destinations.

Need for stronger cooperation among Asia-Pacific countries

There is need for stronger and more meaningful cooperation among Asia-Pacific countries. In particular, cooperation could cover the areas of: technology, financing, export insurance and communications

It was also suggested that the more developed economies in the region, such as Japan, Republic of Korea, Taiwan Province of China and Hong Kong, should participate actively in project lending and joint ventures in the region. Export expansion in the less developed countries of the region would lead to higher economic growth, which in turn would stimulate a higher level of consumption and increased imports from the more developed economies of the region.

Dynamic role for chambers of commerce

As many countries in the region are embarking upon a policy of liberalization and open-market economy, the private sector is poised to play a pivotal role as an engine of economic growth in future. In view of this changed environment, chambers of commerce in various countries will need to establish and strengthen cooperation among themselves in order to assist business and industry in their own countries to become aware of emerging opportunities in the region, as well as to identify suitable regional partners.

Chambers of commerce also have an important role to play in regard to the control of restrictive business practices. They should take steps to have generally accepted voluntary codes of practice observed by the private sector.

B. Institutional support for export expansion

Export marketing support and other trade-related services are crucial if small and medium-sized enterprises (SMEs) are to be able to export and compete on world markets. Given the relatively small size of developing-country exporters, government-backed trade-related services are an essential component of any export expansion strategy. In this context, key services include export financing schemes, quality control, marketing and distribution services and the trade promotion activities of trade promotion organizations (TPOs).

The role, functions and organizational set-up of trade promotion organizations

A major concern is how to make TPOs more effective. In this context, there was an extensive exchange of views on the role, functions and organizational set-up of TPOs, including appropriate modes of funding. In general, it was felt that in the post-Uruguay Round situation of increased global competition, TPOs were more necessary because of a greater need for information, especially by SMEs, on market opportunities and trends in diverse markets around the world, as well as to make known the products of a country in these markets. Based on various country experiences, the organizational set-up for TPOs which seems to work best is one in which the TPO is a quasi-governmental agency involving both governmental and private sector participation. Government participation is important, among other things, for the status of TPOs vis-à-vis foreign Governments. Methods of funding which do not rely exclusively on the government budget but rather on small ad valorem levies on exporters and importers provide greater financial security and effectiveness for TPOs.

Many economies in the region have some form of TPO. In Indonesia it is NAFED (National Agency For Export Development). Others are: Trade Development Board (Singapore), KOTRA (Republic of Korea), CETRA (Taiwan Province of China), HKTDC (Hong Kong), JETRO (Japan), MATRADE (Malaysia), CCPIT (China), Department of Export Promotion - DEP (Thailand), and the bureau of Export Trade Promotion - BETP (Philippines). Each of these TPOs has a different organizational set-up and varying programmes and activities, as well as sources of funding.

A number of countries have TPOs that are essentially part, or a directorate, of a government department, such as the ministry of trade or commerce (e.g. NAFED of Indonesia, DEP of Thailand and ITPO of India). Other TPOs are quasi-governmental bodies, as in Singapore (TDB) or Hong Kong (HKTDC). In general, a quasi-governmental set-up provides greater flexibility, organizational autonomy, and less bureaucratic interference in the day-to-day operation of TPOs. Furthermore, it facilitates greater private participation in the board, management and funding of TPOs. The best organizational set-up, however, will depend on the political and economic environment of each country.

Modes of activity of TPOs

TPOs pursue a range of promotional activities, including trade exhibitions and fairs, trade missions, collection and dissemination of information on export opportunities and potential partners, market surveys, consultancy services, training and workshops for exporters, and promotional publications. The service mix of each TPO will depend on the stage of export experience, the role of transnational corporations, and the importance of (SMEs) in the economy, and on the budget constraints of each TPO.

One of the most important services of TPOs is the provision of information regarding export opportunities. Potential benefits of such information, however, will depend greatly on their quality and timing. While large firms can afford internal collection and analysis of trade information, the demand for trade information is greater for SMEs.

The collection and analysis of trade information is both skill-intensive and costly. Multilateral agencies such as UNCTAD, ESCAP, the World Bank and ADB should assist countries of the region to strengthen their capacities with regard to the quality and delivery of trade information.

The role of commercial officers in embassies abroad should be strengthened as they could also make an important contribution, in the post-Uruguay Round trading environment, to information collection on trading opportunities and export promotion in specific markets.

Sources of financing of TPOs

Various alternative means of financing the operations of TPOs have been utilized in the region. These include:

- the government budget;
- contributions from the private sector;
- revenues from marketing of TPO services;
- a small levy on imports and/or exports;
- auctioning of export (e.g. textiles) quotas.

A number of TPOs, such as NAFED of Indonesia, KOTRA of the Republic of Korea, and ITPO of India,rely mostly on government budgets. Others, such as DEP of Thailand and HKTDC of Hong Kong, receive a percentage of import and/or export levies for their funding. Some TPOs, such as Singapore's, have started to price and sell their services. However, the ability to sell services depends on the quality of the services provided, as private firms are likely to be prepared to pay only for those of a high quality.

There are, however, some reservations about the strategy of selling TPO services. While large firms might be in a position to pay for such services, SMES might not be, and hence would not benefit from the services offered. In view of this likely outcome, it is better that TPOs be financed either through the government budget or through import/export levies, or a combination of the two.

IV. Publication and dissemination of the workshop papers

Participants welcomed the intention of the UNCTAD secretariat to prepare a publication containing the conclusions of the Workshop and the papers presented, particularly on the experiences of various economies, for dissemination to Governments, the business community and researchers of the region. Participants urged early publication and undertook to cooperate in the speedy revision of papers, as may be necessary in the light of the discussions at the Workshop.

B. Overview of the studies presented to the Workshop

This section highlights the main findings and conclusions regarding the prospects for trading opportunities of the Asia-Pacific developing countries, the implications of the Uruguay Round, the prospects for attracting greater FDI and the forthcoming technical assistance on policy strategies being provided by the Asian Development Bank. The experiences of each of the 17 participating countries is then summarized.

The sustained dynamism displayed by the ESCAP region has earned it a growing recognition as an engine of growth for the world economy. In 1992-1993, for instance, the average growth rate of exports of the region has been twice as high as that of world exports. A fundamental change that has steadily been taking place in the developing ESCAP region relates to the product composition of exports, with a continuing decline in the dependence on primary commodities, except in the least developed and Pacific island economies. Manufactured goods now account for 60-80 per cent of total exports in a number of countries in the region. Furthermore, these manufactures now encompass sophisticated products, including semi-conductors, cars and computers.

The success of the more dynamic of the developing countries of Asia can be attributed to (a) sound economic management (macro-economic policies); (b) availability of a relatively well-educated and disciplined labour force; (c) open economic policies, aiming to attract foreign investment; (d) supportive export policies, providing incentives and compensation (such as income tax incentives, export restrictions on primary products, export financing assistance, market information and promotion); and (e) a surplus of labour arising from the declining opportunities in the agricultural sector.

While the rapid rise in the share of ESCAP countries region in world trade, to about 25 per cent, is a welcome development, it should be borne in mind that some 58 per cent of the world's population live in this region. China's share in world exports is a mere 2.3 per cent, but it has one-fifth of mankind. Similarly, India's share has fallen to an insignificant 0.5 per cent, as compared with 1.9 per cent in 1950. Such data are a measure of existing inadequacies and of the challenges for trade and investment that the countries in the region will have to confront.

Given the dynamism of the region and its potential, neither the European Union nor NAFTA members would wish to do anything which could undermine their respective long-term interests in the growing markets of the ESCAP developing countries. Remedial measures to overcome any possible effects in terms of trade and investment diversion could be continuing liberalization of trade and investment regimes with a view to enhancing competitiveness. There is also a general sense of optimism that intra-regional trade and investment, increasingly involving more and more countries in the region will gain strength. This may explain the growing interest of countries in subregional organizations and trading arrangements.

The conclusion of the Uruguay Round is, on balance, a welcome development for countries of the region. Over the course of a decade, possibly beginning from as early as January 1995, the agreements reached will cut industrial tariffs in developed countries by 38 per cent and agriculture tariffs by 37 per cent. The Multifibre Arrangement (MFA) will be phased out in four stages over 10 years. All quantitative limits on agricultural goods will be replaced by tariffs (tariffication). Overall, Asian developing countries agreed to bind 70 per cent of their imports - a measure which "should ensure the security of market access and should promote intra-Asian trade". The agreements also seek to protect intellectual property rights and extends GATT principles to trade-related investment measures. It has also been agreed that tighter control will be imposed on the application of safeguard provisions, and of anti-dumping actions.

The benefits to the region are likely to be wide ranging. Accounting for more than 40 per cent of all textile and clothing exports, Asia is likely to gain significantly from increased trade in this sector. Likewise, Malaysia and Singapore are likely to gain from the substantial tariff reduction in electronic machinery. Thailand, as Asia's leading food producer, is expected to gain significantly from the liberalization of agricultural trade. Implementation of the agreements will also entail considerable economic adjustments and restructuring of production processes both at the country level and in the region at large. For example, current employment levels in textiles may not be sustainable as adjustment takes place. Production of electronic goods needs to be expanded in Singapore and Malaysia. The Philippines needs to adjust to the loss of preferential access for sugar in the United States market. At the same time, Asia-Pacific countries need to prepare for the vast trading opportunities that will accrue from the opening up of the services sector, which it has been agreed should receive MFN treatment.

After a spectacular growth in the second half of 1980, global flows of foreign direct investment (FDI) started to decline in 1991, totalling $180 billion in that year, down from $230 billion in 1990. This trend is likely to continue. Nevertheless, total FDI to developing countries continued to increase; new investment amounted to $31 billion in 1990, of which about two-thirds was in Asian developing countries. FDI has been attracted by strong economic growth, especially in the new industrialized economies (NIEs) and Indonesia, Malaysia and Thailand. More recently, India and China have begun to make their presence felt. Taking advantage of a strong yen, Japan became the largest investor in the NIEs and the countries of ASEAN in 1987-1990. However, by 1992 it had taken third, preceded by Hong Kong and the United States. An important development in Asia is the emergence and growth of FDI flows from developing countries to other developing countries in the region (e.g. Korea from the Republic of China and Viet Nam).

Competition among countries to attract FDI has grown in intensity. The change in basic approach to economic development by some countries has led to the entry of new competitors, such as VietNam and Eastern Europe, while competition for FDI has also increased because of the forging of new trading blocs in Europe and North America. Within this new environment, Governments can attract FDI by improving investors' perceptions by ensuring of *inter alia*, (a) a sound macro-economic climate; (b) political stability; (c) clear investment policies; and (d) an efficient institutional framework. Moreover, a reorientation or realignment of investment incentives has taken place in many countries, with continuing emphasis on proactive (e.g. agreement to avoid double taxation of foreign investors), rather than defensive measures. There also has been a noticeable trend away from horizontal, sector-wide schemes to vertical ones, such as those promoting the use of new technologies.

In an effort to assist Asian developing countries in understanding the implications of the changed international economic environment for their economic prospects and to provide them with an objective assessment of alternative policy strategies, the Asian Development Bank has recently initiated a Regional Technical Assistance study entitled "Emerging trading environment: economic implications for developing member countries". The outcome of the study could have implications for the Bank's operations in individual countries. Preliminary results of the study should become available by the middle of 1995 and the Bank is planning to host a conference in Manila in which the results of the findings will be discussed with officials from member countries, representatives of multilateral agencies and international organizations and prominent academics.

Countries or territories where economic progress has been built upon rapid expansion of exports have invariably relied on a well-defined export strategy, including the necessary infrastructure, in support of such a policy. Examples are Hong Kong, Japan, Republic of Korea, Singapore, and Taiwan Province of China. Their experiences may serve as a guide to other countries of the region that have recently become dynamic exporters (China, Indonesia, Malaysia and Thailand). Similarly, lessons can also be drawn by those that have embarked on a major effort to expand exports, have introduced the necessary policy reforms and plan to provide for or to improve the institutional support structure (Bangladesh, Fiji, India, Nepal, Pakistan, Philippines, Samoa, Sri Lanka and VietNam). The country experiences are reviewed in the order in which they are classified.

In what follows, national experience is reviewed in the order which countries are referred to above.

Hong Kong

Hong Kong's ranking in world exports soared from twenty-sixth place in 1977 to eighth in 1993. China's adoption of the "open door" policy since 1978 has not only led to a dramatic revival of Hong Kong's traditional role as an entrepôt for China but has also generated a steady rise in Hong Kong's outward processing trade.

A special feature of the Hong Kong success story is the partnership between the Government and the business community to provide strong systems of support to the manufacturing industry and trade. These consist of Committees and boards to advise the Government on trade and industry issues; institutions set up for specific purposes; and private sector business associations.

The Hong Kong Trade Development Council (HKTDC), set up in 1966, is a statutory body responsible for promoting and developing trade. It is funded from revenue collected by means of an ad valorem fee on practically all imports and exports. The Council consists of government officials, businessmen, and representatives of business associations. Through a network of overseas offices, it generates international awareness of business opportunities in Hong Kong. In 1967 the Government set up the Hong Kong Export Insurance Corporation (ECIC) to provide insurance protection to exporters against the risk of monetary loss arising from non-payment by their overseas buyers for goods exported and services rendered on credit which are not normally covered by commercial issues.

The Sino-British Joint Declaration which maps out the future of the colony after June 1997, provides that Hong Kong will continue to maintain the prime features of its system based on economic freedom, will be a separate customs territory, and it will participate in international economic and social activities on its own. This framework therefore preserves the market access opportunities for Hong Kong's trade in future years.

Japan

Since the end of the Second World War Japan's policy has centred on achieving a dynamic and sustained growth of industry. There was first the period of reconstruction, when key industries such as power, coal and steel had to be rebuilt. Once reconstruction had been completed Japan opened its economy, in the 1960s, by liberalizing trade and international capital transactions. The development of heavy and chemical industries in the 1970s helped Japanese industry as a whole to strengthen its competition in world markets, but it gave rise to environmental problems which led the Government to embark on fostering a knowledge-intensive industrial structure. The various industrial policies pursued relied mainly on the extension of credit and tax incentives, in addition to export promotion measures. Almost all of these measures have now been abolished.

One of the most serious defects in Japan's trade after the war was that it consisted of "blindfold trade" meaning - e.g. goods were exported to other countries without having the proper information about these countries. Also, overseas markets did not have sufficient knowledge of Japanese goods. To remedy this situation, the private sector opened branch offices and sent representatives abroad. And in 1958 the Government created the Japan External Trade Organization (JETRO) for the purpose of quick and accurate gathering of information on overseas markets as well as of enlightening those markets regarding Japanese goods.

Nowadays JETRO's main focus is on import promotion rather than export promotion. In the past, JETRO engaged in nine types of export promotion activities. The first and most important of these was research into actual conditions abroad, in respect of import systems, price trends, import channels, etc. This information was disseminated through trade centres. The other activities included exhibitions, publicity, consultant services, design information, developing flexible response to trade restrictions abroad, creation of overseas offices and publication of daily trade bulletins.

Republic of Korea

Although it is difficult to make analogies with other developing countries, there are several lessons to be drawn from the experience of the Republic of Korea in its drive for economic development and export expansion. The first of these is the reaffirmation of the importance of outward-oriented trade policy so as to take better advantage of international economic opportunities, overcome the limitations of the domestic market and benefit from the exposure to foreign competition. Second, excessive government intervention is considered not a good substitute for the market mechanism, which is the preferred means of achieving an efficient allocation of resources. The structural imbalances in the country's industries in the late 1970s were caused partly by an arbitrary selection of strategic industries. Third, an export-oriented growth strategy must involve a consistent policy with regard to exchange rates, imports and exports. Fourth, social and political stability is a critical element for economic development. Fifth, Governments of developing countries might do well to devote more resources to education and manpower development. Sixth, the importance of the healthy growth of small and medium-sized enterprises for balanced development of the industrial structure cannot be overemphasized. Finally, the Government must have the cooperation of private industry and of labour to make the policies work.

The Korea Trade Promotion Corporation (KOTRA) was created in 1962 as an "organization for the promotion of trade". It had the complex mission of offering guidance to domestic industries to help foster exports, recommending export promotion policies to the Government and introducing or publicizing domestic commodities abroad. With rising protectionism in the 1970s, the need arose to reorganize domestic export industries, and concurrently KOTRA's export drives switched from quantitative expansion to quality improvement. In the early 1980s, KOTRA gave increasing attention to the support of exports by small and medium-sized industries. With the diminishing trade surpluses in the 1990s and the decline in competitiveness due to persisting inflationary pressure and wage spirals, KOTRA realigned its organization and programmes in favour of an export acceleration system. Efforts were made to step up the dispatch of market exploration teams, invitations to foreign buyers' groups and participation in overseas exhibitions. To accelerate exports by SMEs, KOTRA resumed programmes to arrange export deals all right up to their conclusion. of deals.

KOTRA's long-term vision for the next century calls for the establishment of: a comprehensive trade information centre to bolster the data base of various information systems; (2) an overseas marketing support centre to integrate various market exploration activities; and (3) an international trade cooperation centre to execute, on a commission basis, trade-area cooperation projects out of the Government's aid programmes.

Singapore

Singapore's diverse industrial base ranges from capital-intensive industries such as petroleum refinery, shipbuilding and oil rig construction to skill-intensive industries such as computers, aircraft components, optics and precision instruments, as well as a wide variety of consumer goods industries.

In view of the scarce supply of manpower, the Strategic Economic Plan (EP) placed emphasis on assisting certain target industries. Particular attention has been given to industries where strong linkages exist to take advantage of economies of scale. In the course of rapid growth, the Singapore economic structure has been transformed, from that of an entrepôt economy over two decades ago to one based on manufacturing exports.

The pattern of exports has changed significantly since 1970. The share of oil (mainly petroleum products) as a proportion of total exports fell from 43.2 per cent in that year to 20.2 per cent in 1992. In contrast, the share of machinery and equipment rose dramatically, increase from 10.8 per cent to 57.8 per cent. Important products included office and data processing machines (including disk drives), radio and television receivers and parts, and electronic components and parts such as integrated circuits.

The Trade and Development Board (TDB) occupies the centre-stage in the development of Singapore's trade. Most of the export expansion schemes administered by TDB comprise incentives to encourage companies to engage in certain market development activities and or attracting certain activities to Singapore. The former includes double tax deduction schemes for trade fairs and missions, overseas trade office and overseas market development. The latter includes the Approved Oil Trader (AOT) scheme to encourage oil trading companies to have their operational bases in Singapore and the Approved International Trader (AIT) scheme by which concessions are granted in international trading of approved commodities. Moreover, TDB has launched various schemes to enhance the marketability of Singapore's exports. The Franchise Development Assistance Scheme (FRANDAS) helps companies develop and expand their business through franchising overseas. In addition the Board introduced the Certification Assistance Scheme (CERTAS) to help local suppliers obtain ISO 9000 certification.

Taiwan Province of China

Being a small island with very limited resources, Taiwan Province of China had to depend heavily on the expansion of trade for its economic growth. And, in order to compete in the international market, it required a sound trade policy and structural changes in its economic activities.

The Province currently trades with over 160 countries and territories. In 1993, its total external reached a record $162 billion (exports $85 billion and imports $77 billion), making it the 13th largest trading entity in the world. Its policy of encouraging exports led to persistent trade surpluses and the accumulation of foreign exchange reserves, not to mention serious friction with some of its trading partners. In 1984, it embarked on a policy of economic liberalization, internationalization, through economic cooperation and technological interchange, and regularization with a view to establishing a free, fair and open trading system. In order to expedite these policies, a comprehensive Foreign Trade Act came into force in 1993.

Today, foreign trade continues to be the driving force of economic development. Under the rapidly changing external trading environment, every effort will be made to keep export products competitive. Policies will give more emphasis to: research and development in support of industrial upgrading, so as to develop technology-intensive industry; better and more education and training to improve labour productivity; a sound legal system, as well as fair and efficient enforcement of laws and regulations; and more active participation in international affairs.

China

Before 1978, China was basically a "closed" economy, in which self-reliance was the mainstay of the economy. Foreign trade was simply a means of adjusting for surpluses and shortfalls. Since that time China has put forward a strategic plan for reforming the structure of the domestic economy and opening up to the outside world. Over the past decade or so, a number of steps have been taken to promote manufactured exports, especially light industrial products, textiles, machinery and electronic products. These steps included: a higher foreign exchange retention rate for exporting enterprises; the establishment of an export capacity for manufactured goods; and, the creation of a special fund by MOFTEC to assist selected enterprises to raise their technological standard.

In order to open its economy further and meet international competition, China abandoned the practice of relying on the export of low quality and cheap products in favour of "winning on quality". Products underwent strict control at the level of design, manufacturing and packaging. China's traditional export markets were highly concentrated, even up to the late 1980s. To correct this situation, the strategy shifted to market diversification. While maintaining and developing trade with the United States, Japan, the European Community, Hong Kong and

Macao, China has made great efforts to penetrate markets in neighbouring countries, such as the ASEAN States and has exploited many avenues of developing trade and commerce with the countries of the former Soviet Union. To put this strategy into effect, it took the following measures:

- Establishment of a special export liability insurance system;
- Provision of discount services for exports to key markets;
- Expansion of sales credit and establishment of purchasing credit;
- Creation of a special fund for market diversification; and
- Improvement of shipping terms.

MOFTEC is the main government agency responsible for the overall management and promotion of foreign trade. The China Council for the Promotion of International Trade cooperates with the Government in export promotion activities. Export trade fairs held in China and business and investment fairs abroad are important vehicles for export promotion. Although a number of trade fairs are held in China, the biannual Guanzzhou (Canton) Export Commodity Trade Fair, sponsored by MOFTEC, is the largest.

Indonesia

Following the sharp decline in oil revenues in the early 1980s, the Government introduced a number of "deregulation policies" with a distinct free market orientation. The trade reforms succeeded in establishing a more diverse and more competitive economy. One measure of Indonesia's success in building its export base was the sharp rise in the importance of manufactures in total exports, to 58 per cent in 1992.

The National Agency for Export Development (NAFED) provided important institutional support for export promotion and expansion. Established in 1971, NAFED is a directorate of the Ministry of Trade, provides a comprehensive range of services on marketing and export procedures and helps organize fairs, missions and exhibitions. The agency has also developed a computerized Trade Information Network System (TINS), on-line with several regional offices, and some international data banks. In view of the changing trading environment (resulting, for example, from the Uruguay Round), NAFED need, to redefine its functions and sharpen the focus of its programmes. It is also important for it to have greater institutional independence in order to streamline and increase the effectiveness of its programme activities. Greater participation by the private sector and business associations in its activities would also improve its effectiveness.

Malaysia

Over a generation of more than 30 years, Malaysia has made the successful transformation from a two primary-commodity economy to become a rapidly industrializing economy, widely regarded as one among the few dynamic Asian economies. The New Development Policy (NDP) is to set the pace for Malaysia to become an industrially oriented economy by the year 2000 and a fully developed nation by the year 2020. The crux of this policy is to strengthen the manufacturing base and diversify the exports of manufactured products. This development will be led by the private sector, with the Government action as a facilitator, constituting a complete shift from its strong interventionist role in the 1970s and its laissez-faire attitude in the 1960s. A host of measures and incentives have been taken to encourage production for export and to enhance export capabilities.

The Malaysian Ministry of International Trade and Industry (MITI) is responsible for facilitating and promoting exports. The Malaysian External Trade Development Corporation (MATRADE) is the export promotion arm of MITI. Its main responsibilities are to assist in maintaining the competitiveness of Malaysian value-added products and services in the global market place. Apart from being a one-stop information and advisory centre for the Government and the private sector, MATRADE assists exporters by organizing trade missions and trade exhibitions overseas.

Thailand

For two decades before 1979, the Thai economy grew on average at a rate of 7-8 per cent a year. The period of slowdown in the first half of 1980s was followed by one of expansion, when growth was mainly achieved through an import substitution policy, while exports of rice and other major crops generated a large part of foreign exchange earnings needed to finance imports for industrialization. The 1980s was "the decade of drastic economic change." By 1990 the share of agriculture in national output had fallen to 12 per cent, from 32 per cent in 1965, while that of manufactures rose to 26 per cent, from 14 per cent in 1965. 26 per cent in 1965.

The Board of Investment (BOI) plays an active role in the expansion of exports. Concessions granted in this regard include various corporate income tax holidays and exemptions of tax on imports of machinery and, in some cases, raw materials. In addition, eligible export producers obtain a rebate of taxes on imports of any goods used in export production. Exporters also enjoy an export credit facility granted by the Bank of Thailand.

Bangladesh

Export earnings in Bangladesh were largely dependent on a few products (principally jute and jute products, tea, leather, frozen foods and textiles), most of which were subject to domestic shocks and fluctuations in the international market. To overcome this situation, government policy shifted from industrialization narrow and inward based on looking import substitution to a broad and outward - looking export - oriented industrialization policy. The long-term strategy being followed includes: reducing the regulatory role of the Government; strengthening the institutional framework for providing better services to exporters and export-oriented industries; human resource development; and broadening and diversifying the range of exportable products.

In support of this strategy a high-level National Council for Export has recently been created, chaired by the Prime Minister. In addition, a Task Force and Export Promotion Council are working to promote exports. The results are visible. Despite worldwide recession and the subsequent slack recovery, export earnings increased from $1.3 billion in 1988/89 to $2.4 billion in 1992/93. Whereas in the early 1980s export earnings financed about 35 per cent of the import bill, the proportion soared to 60 per cent in the early 1990s. The momentum for export growth needs to be sustained through more concentrated efforts in the fields of product development and product diversification. In this connection, the Government has adopted a number of measures aimed at improving the traditional semi-intensive method of shrimp cultivation; developing export-oriented computer software and engineering consultancy services; and increasing participation in trade fairs at home and abroad.

Fiji

Since 1987 Fiji has undertaken a series of policies aimed at stimulating the development of exports. A combination of favourable exchange rate policies, the tax-free factory system (TFF) that was implemented in 1987 and the decline in real wages created a highly favourable investment climate, which was in large measure responsible for the emergence of the manufacturing export sector. This result must also be seen the in light of the changed in provisions on access to the New Zealand and Australian markets that occurred after 1987, which made possible an extraordinary development of the TFF system, especially in the low-wage garment sector.

Garment exports rose from virtually nothing prior to 1987 the coups to $90 million by 1991. There has recently been a plateau of exports from this particular sector, largely due to the recession in the main export markets. However, this industry remains an important source of employment and foreign exchange earnings.

In the last few years the Government has been encouraged by early signs of diversification of the export sector towards new products. In particular there appears to have been an increase in the number of facilities established for export to the United States market, as well as for the production of footwear and furniture. Another area where there has been a substantial increase and diversification of export activity has been fish products for export to the United States and Japan. While there is currently a small gold mine operating in Fiji the Namosi project under consideration would make copper and gold the nation's largest exports, even larger than sugar, which has traditionally dominated the Fiji export sector.

In 1980 the Government established the Economic Development Board, which later became the (FTIB) in recognition of Fiji's need to generate more vigorous investment activity. Its aim is to promote investment in, the and development of, ventures which enhance employment opportunities, increase exports, or reduce imports in line with the country's development objectives.

India

From the fifth Five-Year Plan (1974/1978) to the initiation of economic reforms in July 1991, the Government's policy was essentially based on import substitution and creating at the same time a policy package for export which would at least nullify the implicit anti-export bias of the import substitution policy. The poor record of India's exports up to that period seems to be due more to wrong domestic policies than to external factors. By 1991 foreign exchange reserves were almost completely exhausted and the country faced the prospect of defaulting on international commitments. This external shock provided the basic momentum to the initiation of the Structural Reforms Programme, involving in particular, the devaluation of the Rupee, the large scale delicensing to free imports from administrative-cum-quantitative controls and the relaxation of export controls. The impact of the trade policy reforms, at least on exports, appears to have been substantial. The rise in exports, together with stagnation of imports, has led to a substantial improvement of the balance of trade.

Over the past four decades India has developed what is possibly one of the world's most comprehensive institutional public support systems for export development. Nineteen product-specific Export Promotion Councils and nine Commodity Boards were set up. The Councils (EPCs) are partly financed by the Government and partly by trade and industry. The mandate of these bodies essentially covers a wide spectrum of activities related to development of trade and the provision of specific services to their members. In addition, there is the Federation of Export Organizations (FIEO), an apex body of all export promotion organizations. A number of suggestions are being mooted to improve the functioning of EPCs, first among which is to strengthen them with qualified professional staff. Their major default at present is their lack of market research which should be the focus of their activities. Another suggestion is that EPCs be abolished and replaced by organizations equivalent to JETRO or KOTRA, or their work taken over by Chambers of Commerce.

Nepal

Nepal's trade policy has undergone a complete reversal, with emphasis on liberalization and outward orientation since the introduction of the Eighth Plan in 1992. Expansion and diversification of exports, as consistently emphasized in earlier plans, was to be achieved by reducing trade dependence on India. However, Nepal's exports both to India and the rest of the world still consist of agricultural and other primary products and simple manufactures such as garments and woollen carpets. The increase in exports has, however, failed to mitigate the adverse and alarming balance of trade deficit either with India or with the rest of the world.

The bulk of exports now go to developed country markets (70 per cent). Carpets are almost exclusively destined for Germany and garments for the United States, with these two items accounting for 82 per cent of total export earnings. In view of the stringent rules and regulations which are likely to be maintained in these two areas, it is doubtful whether Nepal can sustain the same level of export links to developed country markets. East and South-East Asia represent the brightest spot for future exports, especially if there is greater economic interaction through trade and investment. Within the framework of SAARC, a Preferential Trading Arrangement (SAPTA) is to be established by 1997, designed to promote intra-regional economic cooperation and development.

As regards institutional support arrangements, the Trade Promotion Centre has been streamlined and a Foreign Trade Policy Research Institute established. The Trade Council will continue to review matters related to trade under the Chairmanship of the Minister of Commerce.

Pakistan

Pakistan's outlook for exports to the year 2000 is not encouraging because of the concentration of export earnings on few commodities: cotton, rice and leather account for about three quarters of total export earnings. Exports suffered badly in 1992-1994 because of the virus attack on cotton the crop, and the outlook for 1995 is also depressed. It will take some time for cotton to regain its lost momentum, and it is therefore essential for Pakistan to diversify its export structure.

In view of the gravity of the problems lying ahead, a Task Force on Exports was constituted by the Government with a view to identifying the major impediments to exports. The Task Force has already submitted a number of recommendations, including, in particular, duty drawbacks, provision of credit, establishment of an export finance scheme, rationalization of the lending rate structure, moves towards full convertibility, an inspection mechanism for quality standards, and more aggressive marketing strategies. Moreover, it has recommended that the Export Promotion Bureau be made autonomous and managed by a Board of Directors nominated from amongst the private sector exporters.

Philippines

The Philippines was Asia's economic dragon in the 1950s and 1960s. In the 1970s the imposition of martial law and the attendant unrest applied a brake to the country's economic growth. In 1983 political turmoil triggered widespread demonstrations and massive capital flight, resulting in the country's most severe postwar crisis. Exports went on a tailspin, to a record low of $4.5 billion. With a new Government in 1986, political and social rebuilding took centre-stage, so that in 1993 the country recorded its best export performance ($11.3 billion, which was two and a half times the 193 level).

The Philippines stands on the threshold of a new economic era. It has weaned away from total foreign dependence and although North America remains its leading export market, Europe as a whole has become its second biggest market. The growth of exports has been most rapid to South-East Asia.

The commodity structure of exports has improved. Particularly encouraging is the fact that manufactures now account for about 90 per cent of total exports, exceeding in growth the more volatile and price-sensitive commodity items. Major exports are industrial manufactures (electronic products), consumer manufactures (garments and furniture), food (marine and fruits) and resource-based products such as "nata de coco", marbles and carrageenans).

A Presidential Proclamation of 20 April 1993 declared export development as the key programme for achieving the goal of turning the Philippines into a newly industrializing economy by the turn of the century. On 10 June of the same year, the Government established the Export Development Council (EDC) to oversee the various national export development efforts. The Council is a superbody composed of top government officials and business leaders and considered crucial to the attainment of the export growth envisaged until 1998. Also, the Department of Trade and Industry (DTI), in cooperation with the leaders and members of 54 major industry export associations, and in consultation with and technical assistance from the Asian Institute of Management and UNDP, has developed, through a series of regional workshops, what is now known as the Medium-Term Philippine Export Development Plan (PEDP). This process of developing the existing national export plan deserves emphasis; it is the first export plan drawn with full private sector participation. The principle is that if the private sector "owns" the plan, it will be committed to and work for its success. This plan focuses on strategic rather than operational planning and is therefore more pragmatic and holistic. The Bureau of Export Trade Promotion reporting to DTI, also participates actively in the planning process, and is responsible for monitoring and helping to implement the DEDP.

Samoa

After years of poor economic performance, Samoa's economy has finally begun to recover in 1989, thanks largely to the reforms introduced in 1983 and the upturn in export commodity prices. Agriculture remains the mainstay of the economy, accounting for 40 per cent of GDP; the major cash or export crops are coconut, taro (until 1993, when it was devastated by the taro blight), and cocoa. Although growing, manufacturing is still relatively small, accounting for about 11 per cent of GDP. The major export items in recent years include beer, cigarettes, and automotive wiring harnesses. Diversification of merchandise exports has been gradually picking up momentum, with automotive wire harness and coconut cream boosting exports and development of the fledgling garment industry. Overall, the export base in the manufacturing sector remains narrow and therefore vulnerable to external shocks.

Highly vulnerable to external shocks, Samoa has suffered in recent years from a series of natural disasters. This makes it all the more important to diversifying the economy into areas of high value exports.

The main government agency for the promotion of exports is the Department of Trade, Commerce and Industry (DTCI), the functions of which were reconstituted in 1990. Another important and institutional initiative has been the setting up of a Trade and Marketing Division within DTCI, which provides the private sector with overseas contacts and information on export markets.

Sri Lanka

A far-reaching programme of economic reforms was introduced in 1977, involving a movement away from a command economy to an one based on market forces. In particular, the dual exchange rate system was unified, with a significant measure of devaluation. Exchange controls and import controls were liberalized to some extent. A new tariff structure was introduced, subsidies gradually reduced and foreign investment encouraged. It was in 1989, when the second phase of economic liberalization was implemented, that the private sector was given the lead role and explicit priority was given to export-led industrialization. In the period 1970 to 1990, the share of agricultural products in total exports, declined from 95 per cent to 36 per cent, while that of industrial exports rose from 2 per cent to 52 per cent. The major export items included tea, garments, rubber and naphtha, with garments accounting for 50 per cent of total export earnings.

Exporters were provided with several attractive schemes in 1992, when that year was declared the "Year of Exports", initiating a "Decade for Exports". Products/services have been selected for development on the basis of comparative advantage. Emphasis has been given to a dispersal of export-oriented production to the provinces, a concept that had previously been tried in a limited way when the Export Production Villages (EPVs) were launched in 1981.

In addition to monetary and fiscal incentives, the Export Development Board, as facilitator of the National Export Plan, organizes seminars and workshops for exporters in areas such as export procedures, marketing, packaging, product development, and new markets. Assistance is also given to selected exporters to participate in trade fairs and exhibitions abroad. Two export processing zones have been set up and two more have been opened recently.

Viet Nam

The decade since the reunification of the country up to 1986 was fraught with serious difficulties and challenges. The 1986 reforms to move from a centrally planned economy to a market-based economy brought about profound changes in socio-economic activities. These changes have become more noticeable since 1989 when the tempo of reforms was accelerated.

Viet Nam actively encourages exports while strictly controlling imports. Enterprises are given the right to export their products and to import the materials necessary for their production. The aim is to liberalize gradually foreign trade which is mainly regulated by a tariff system, and to abolish non-tariff and administrative measures. According to the Law on Foreign Investment, enterprises with foreign investment, including both joint ventures and 100 per cent foreign-owned enterprises are entitled to export their products and to import the necessary machinery, equipment and materials for the start-up of production and for subsequent regular business needs. The possibilities given to enterprises to trade freely must be complemented by favourable policies on credit and export-import insurance, and on investment to boost production for export, particularly as regards agricultural fish products. By the year 2000, Viet Nam's export turn-over will have to increase five-fold in order to achieve the official target.

PART II

THE INTERNATIONAL DIMENSION

OUTLOOK FOR TRADING OPPORTUNITIES IN THE ESCAP REGION

Report by the ESCAP secretariat[*]

I. INTRODUCTION

ESCAP has 49 member States and 10 associate members. The geographical coveragae of the ESCAP region extends from Azerbaijan and Armenia in the west to the Cook Islands in the east and from Mongolia in the north to Australia and New Zealand in the south.

The purpose of this paper is to explore the prospects and opportunities for trade in the ESCAP region in the context of the changing circumstances both within and outside the region. Global trends are referred only to the extent that they are relevant for the outlook for trading opportunities in the region.

The region's dynamism

Focusing on the region is indeed appropriate. The sustained dynamism displayed by this region has earned it a growing recognition as an engine of growth for the world economy. Even in 1993, despite the sluggish performance of the world economy, developing countries of the Asian and Pacific region achieved an average economic growth rate of 6.7 per cent (table 1), the same as in 1992[1]. Among the several high performance economies, the most noteworthy has been China, with a growth rate of 13 per cent in 1993. Economic growth remained strong and steady in South-East Asia. The economies of South Asia are raising new expectations following their continued robust performance in 1993. Even the Asian least developed countries - including Bangladesh, Nepal,

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[*] International Trade and Economic Competition Division, Economic and Social Commision for Asia and the Pacific (ESCAP).

[1] *Economic and Social Survey of Asia and the Pacific 1993*, (ST/ESCAP/1363), United Nations publication. Sales No.E.94.II.F.8.

Table I: Growth of GDP in ESCAP countries in 1993 and forecasts for 1994 and 1995[a]

(Increase over previous year in per cent)

Country	1993 (Estimate)	1994 (Forecasts)	1995
Developed member countries	0.2	1.6	2.9
Australia	2.4	3.0	2.3
Japan[b]	0.0	1.5	3.0
New Zealand	3.6	2.4	2.4
Developing member countries[c]	6.7	6.8	7.0
Bangladesh	5.0	5.0	5.5
China[b]	13.0	9.5	9.6
Fiji	4.5	4.8	5.0
Hong Kong	5.5	5.6	5.8
India	4.6	5.6	6.0
Indonesia	6.3	6.4	6.7
Republic of Korea	4.6	6.5	6.0
Malaysia	7.6	8.1	8.2
Nepal	2.9	4.9	5.0
Pakistan	3.0	5.0	5.4
Papua New Guinea	10.6	0.3	2.0
Philippines	1.8	4.2	5.0
Samoa	1.9	2.5	3.0
Singapore	8.1	6.3	6.7
Solomon Islands	4.8	4.5	4.5
Sri Lanka	5.8	5.9	6.0
Thailand	7.5	8.0	8.2
Tonga	2.5	3.3	3.4
Vanuatu	1.9	2.5	2.5

Source: ESCAP estimates, Project LINK and national sources.

Note: Data relate to fiscal years ending in the year shown for Bangladesh, Pakistan and Nepal and in the following year for India.

[a] Measured in constant market prices.

[b] GNP.

[c] Based on data for 20 countries, representing more than 95 per cent of the population of the region; national growth rates have been weighted by GDP at market prices in United States dollars in 1990 to calculate the regional rates.

Cambodia, the Lao People's Democratic Republic, Myanmar and Maldives (throughout Afghanistan) - are displaying a new and growing sense of dynamism.

Nowhere has the sustained dynamism of the region been more evident than in the field of trade and investment. For instance:

- The growth of exports from the region during the period 1992-1993 has been twice as high as that of world exports;[2]

- The region now accounts for nearly 25 per cent of world trade, a 50 per cent increase over 1980[3] (see table 2);

- In East and South-East Asia there are labour shortages in some countries, while the ranks of the unemployed are growing in the rest of the world, raising the number to some 43 million people globally.[4]

The dynamic changes in the region have brought about rapid shifts in economic structures. In particular, the close linkages between trade, investment and technology transfer have prompted the emergence of a nexus - a unique development fuelling the continuing rapid growth of the region. This nexus has also had a significant influence on sustaining the growth of intraregional trade. The ESCAP secretariat estimates that the share of the region's intra-trade in its total exports increased from 33 per cent in 1975 to 45 per cent in 1991 - a trend which continues to be strengthened. What is more remarkable in this context is the rate of growth, and not just the growth itself. With a situation of relative peace prevailing after a long time across most of the borders of Asian countries cross-border trade will surely increase for many of them and the trend towards greater intraregionaltrade will gain further momentum. For instance, cross-border trade between Viet Nam and China climbed to

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[2] *Ibid.*

[3] *Ibid.*

[4] ILO estimates, published in *Time Magazine*, 9 May 1994.

Table 2: Value of world merchandise trade by region, 1991-1992

(Billion of dollars and percentage change)

Exports (f.o.b.)			Region	Imports (c.i.f.)		
Value	Annual change			Value	Annual change	
1992	1991	1992		1992	1991	1992
3 700	1.5	5.5	World	3 830	2	6
580	5.5	6	North America	685	-1	7.5
150	-1	4	Latin America	170	15	18.5
1 705	-1	5.5	Western Europe	1 770	.5	3.5
1 455	-1	6	EC	1 520	2	4.5
225	-3.5	5	EFTA	215	-5.5	1
85	-25	-10	Central and Eastern Europe and CIS[a]	90	-30	-5
95	0	-3	Africa	100	.5	3.5
120	-9	-0.5	Middle East	125	13.5	13.5
970	11.5	9.5	Asia	895	9	8
340	9.5	8	Japan	235	.5	-2
85	16	18	China	80	19.5	26.5
415	15.5	12	Six other Asian exporters of manufactures[b]	430	16.5	11.5

Source: *GATT Activities 1992*, Geneva, June 1993 (figure 3).

[a] Figures are affected by difficulties in converting data expressed in national currencies into dollars. See Box 1 in Volume I of GATT, *International Trade 1990-91*. No data are available for trade among the members of CIS. The figures in the table for this region include also the foreign trade of the Baltic States.

[b] Taiwan Province of China, Hong Kong, Republic of Korea, Malaysia, Singapore and Thailand.

$3.45 billion in 1993, accounting for half of Viet Nam's foreign trade.[5]

Causes for success

It has been argued that the success of the more dynamic of the developing countries of Asia has been based on (a) sound economic management (macro-economic policies); (b) a relatively well-educated and disciplined labour force; (c) open economic policies oriented towards foreign investors; (d) supportive export policies, providing incentives and compensation (such as income tax incentives, export restrictions on primary products, export financing assistance, market information and promotion); and (e) a surplus of labour arising from the declining opportunities in the agricultural sector. Sometimes, the foreign investments have been closely tied to export requirements. For instance, in the case of Thailand, the export criterion became so important during the second half of the 1980s that almost all new investments promoted by the Board of Investment during this period were designed to export at least 80 per cent of their output.[6]

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[5] *The National Review* (Bangkok), 5 June 1994.

[6] "Export orientation, trade liberalization and regionalism", paper presented by Frank Flatters, Queen's University and Richard G. Harris, Simon Fraser University, Canada, at an ESCAP/TDRI/Queen's University Conference, "AFTA and Beyond: An ASEAN Perspective", Bangkok, 27-28 April 1994.

In a survey for ESCAP undertaken by the Korea Trade Promotion Corporation (ESCAP and UNDP, 1992) the main motives for foreign direct investment (FDI) were analyzed, leading to a similar distribution of these motives among companies from developed countries, NIEs, the ASEAN region, etc.:

Motives for FDI from different country groups in the Asia-Pacific region

(Percentage)

Motive	Developed countries	NIEs	ASEAN	China	South Asia	Total
Local market	30.9	29.3	7.1	28.6	24.6	18.3
Circumvent export restriction	2.4	12.2	15	7.1	5.8	10.5
High rate of return	16.7	17.1	17.1	7.1	18.8	17.0
Preferential benefits	0.0	4.9	12.9	0.0	5.8	7.8
Low labour cost	14.3	14.6	17.9	50.0	27.5	20.6
Supply of materials	11.8	7.3	5.7	0.0	1.4	5.5
Acquisition of know-how	4.8	0.0	5.0	0.0	1.4	3.3
FDI incentives	2.4	7.3	10.7	0.0	7.3	7.8
Re-export to home country	16.7	7.3	8.6	7.1	7.3	9.2

Source: ESCAP and UNDP, 1992, p. 62.

A fundamental change that has been steadily taking place in the developing ESCAP region relates to the product composition of exports, with a continuing decline in the dependence on exports of primary commodities, except in the LDCs and Pacific island economies. Manufactured goods now account for 60-80 per cent of the total exports of countries such as China, India, Indonesia, Malaysia, Pakistan, the Philippines, Sri Lanka, Thailand and even some LDCs, such as Bangladesh. Simultaneously, exports of manufactures from the region now encompass sophisticated products including semiconductors, cars and computers.[7]

II. A REVIEW OF THE MAJOR FACTORS IN THE REGION'S TRADE EXPANSION[8]

Against this background, the following factors seem to merit closer examination:

(1) The contribution of Japan;

(2) Prospects for intraregional trade and investment (flying geese pattern);

(3) Emerging prospects for China and India;

(4) Other regional trading arrangements such as NAFTA and EU;

(5) Open trading arrangements in the post-Uruguay era; and

(6) Evolving needs in infrastructure development.

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[7] *Economic and Social Survey of Asia and the Pacific 1993*, 1994.

[8] In this section reference is made to a number of papers submitted to the ESCAP/TDRI, Queen's University Conference on "AFTA and Beyond: An ASEAN Perspective", held in Bangkok on 27-28 April 1994. For ease of reference these are cited as papers submitted to the Bangkok Conference.

The contribution of Japan

The role of Japan in the development of the Asia-Pacific region and promotion of interdependence, notably in trade and technology transfer, has been unparallelled. Of the combined GDP of Japan and developing East Asia, as much as three-quarters is accounted for by Japan.[9] This dominant position is, however, being steadily eroded, reflecting a more balanced situation that is gradually evolving. The importance of Japan in total regional GDP is declining as the economies of developing East-Asia steadily grow.[10] Also significant is the high rate of growth sustained in the region despite the economic downturn in Japan, where growth, after slowing down to 1.3 per cent in 1992 from 4.0 per cent in 1991, was zero in 1993. Japan has been the largest trading partner for ASEAN. However, Japan's share of ASEAN's exports dropped from 30 per cent in 1980 to 18 per cent in 1991, a situation which corroborates the above observation. Nevertheless, Japan's importance for the region remains both as a trading partner and as a major source of investment. In fact, Japan's investment in the region is likely to gain further impetus from the acute "Yendaka" or high yen situation which has developed once again, just as in the aftermath of the Plaza Accord of 1985. At that time, the yen exchange rate rose from 240 yen/dollar to 150 yen/dollar in nine months. More recently, the yen has appreciated to 105 yen/dollar, which is as high as the preceding rate in terms of the effective exchange rate.[11]

It may be recalled that in an effort to overcome the loss of competitiveness, Japanese foreign direct investment had expanded rapidly to the NIEs and ASEAN. For instance, by 1990-1992, Japanese investment had reached 25-35 per cent of total FDI in ASEAN countries. With the latest appreciation of the yen, a second wave of Japanese investment is anticipated - and eagerly awaited - in the rest of the region. This time, however, there are other destinations as well.

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[9] The term "developing East Asia" as used in this context encompasses the newly industrialized economies (NIEs) of the Republic of Korea, Hong Kong, Singapore and Taiwan Province of China; the Association of South-East Asian Nations (ASEAN) - comprising the Philippines, Thailand, Malaysia, Indonesia, Singapore and Brunei-Darussalam; and China.

[10] See the paper on "Interdependence and Asia-Pacific Integration", submitted by Prof Seiji Naya, Chairman, Department of Economics, University of Hawaii at Manoa, to the Western Economic Association International Pacific Rim Conference on "Trade Awakening Giant and Pacific Rim Trade," 10 January 1994, Hong Kong.

[11] "Japan and ASEAN: Trade and investment relations in a changing global economic environment", paper presented to the Bangkok Conference by Shigeyuki Abe, Kobe University.

Prospects for intraregional trade and investment

In recent years, the rate of growth in intraregional trade in the ESCAP region has consistently surpassed that of its trade with other regions, a key factor which is enabling the region to cushion itself from the recent global economic recession. Diversification of markets within the ESCAP region has been a significant achievement for the more successful countries in the region. Countries such as China, Indonesia, Malaysia, Japan, the Republic of Korea, Singapore and Thailand had between a quarter to two-fifths of their exports going to the developing countries of the ESCAP region. In the case of Viet Nam, the proportion was almost two-thirds. Just as Japan had shifted industrial units offshore, for similar cost-saving reasons the NIEs, in turn, have been shifting investment to ASEAN and other Asian countries. Taiwan Province of China having faced a shortage of industrial labour and rising wage rates and currency appreciation, turned to Malaysia for investment, with the result that it emerged as the second largest investor in Malaysia in 1988 after Japan. Taiwan Province of China and Hong Kong have emerged as leading investors in Viet Nam. With the sustained growth in their economies and consequent rise in wages, labour-intensive industries are gradually being shifted to less developed countries. At times, Governments have encouraged the industries to benefit from more competitive sources of supply. For instance, among the projects undertaken by government agencies in Singapore are an industrial park in Wuxi, township and urban development projects in Suzhou and Ningbo in China and Bangalore information technology park in India.[12]

There is a general sense of optimism that intraregional trade and investment, increasingly involving more countries in the region, will gain in strength. This may also explain a growing interest of countries in subregional organizations and trading arrangements. The ASEAN Free Trade Arrangement (AFTA) is to be implemented over a 15-year timespan, but most members now favour implementation within 10 years, while at the same time enlarging the product coverage. It is perhaps because of these prospects, that there is now an increasing number of joint ventures among ASEAN firms. For instance, Indonesian companies have joined forces with other ASEAN enterprises motivated by synergy, market penetration, upstream integration and so on.[13] It is pertinent to note that ASEAN can emerge as an integrated regional market of over 320 million people with a combined purchasing power of $340 billion in 1991, that is growing at 6-8 per cent a year.[14] Recently, the South Asian Association for Regional Co-operation (SAARC) adopted the South Asia Preferential Trading Arrangements (SAPTA), with the objective of slashing duties on members' imports by as much as one tenth. The expansion in 1992 of the Economic Cooperation Organization (ECO), involving most ESCAP countries in North and Central Asia, and the Asia-Pacific Economic Cooperation (APEC) as well as the East Asia Economic Cooperation (EAEC), are among the arrangements with potential for enhancing trade and investment cooperation in the region. At the recently concluded fiftieth session of ESCAP, held at New Delhi from 5 to 13 April 1994, the members of the Commission from North-East Asia took the initiative to adopt a resolution on strengthening of subregional economic cooperation in North-East Asia. At the same session, China announced its decision to accede to the Bangkok Agreement (a regional preferential trading arrangement promoted by ESCAP, with support from UNCTAD, the present membership of which comprises Bangladesh, India, Republic of Korea, Lao People's Democratic Republic, Papua New Guinea and Sri Lanka).

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[12] "Perspectives on AFTA beyond: progress, issues and problems of liberalization for Singapore", paper presented to the Bangkok Conference by Dr. Chia Siow Yue, National University of Singapore.

This is fast bringing about changes in the way the potential of the region is perceived. For instance, Japanese companies now visualize the developing countries of the region as import markets as well, rather than as exclusively offshore production bases. The continued growth prospects in many of these countries' economies, their improved trade accounts, the reversal of their current account deficits and the rising levels of income offer considerable attractions. Studies have found significant complementarities between South Asia and ASEAN countries and the NIEs. It has been noted that intra-industry trade in technology-intensive products is significantly more pronounced than in other products. Next in order of importance is the group of unskilled labour- intensive products, natural resource-intensive products, and agricultural and animal husbandry products. Intra-industry trade was found to be the lowest in the case of mineral products.[15]

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[13] See "AFTA and AFTA plus: an Indonesian perspective", paper presented to the Bangkok Conference by Dr. Mari Pangestu, Center of Strategic and International Studies.

[14] "Perspectives on AFTA and beyond: progress, issues and problems of liberalization for Singapore", paper presented to the Bangkok Conference by Dr. Chia Siow Yue, National University of Singapore.

The formation of "growth triangles" in several parts of the region also has substantial trade and investment promotion aspects and contributes strengthened intraregional economic cooperation. In fact, several such proposals are now being actively pursued, including the Northern Growth Triangle (Indonesia, Malaysia and Thailand), the Northern Quadrangle (Myanmar, Southern China, Lao People's Democratic Republic and Thailand), and the Indochina Hexagon (Myanmar, Southern China, Viet Nam, Lao People's Democratic Republic, Cambodia and Thailand). Among similar proposals are the Tumen River Triangle (China, Democratic People's Republic of Korea and Russian Federation), the Eastern Growth Triangle (Island of Mindanao in the Philippines, Sulawesi, and Eastern Manila) and the Yellow Sea Triangle (Taiwan Province of China, Republic of Korea and north-east China). The Hexagon proposal has received strong political support from all six countries concerned and is being promoted by the Asian Development Bank with support from UNDP, ESCAP and the Secretariat of the Interim Committee for Coordination of Investigations of the Lower Mekong Basin. The second ministerial meeting to consider this proposal was held in Hanoi on 22 and 23 April 1994 and the third meeting will be held in Thailand later this year. Among the more important aspects of this proposal are infrastructural development covering the areas of transport, communications and energy as well as promotion of trade and investment.

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[15] "Comparative advantage and pattern of trade in Asia", paper presented by V.L. Rao and R. Upendra Das, Research and Information System for the Non-aligned and Other Developing Countries, New Delhi, to the South Centre/RIS International Conference on Challenges to the South, New Delhi, March 1994.

The most successful growth triangles that have emerged so far in this region are those linking southern China, Hong Kong and Taiwan Province of China, and linking Singapore, Johore state of Malaysia, and the island of Batam in Indonesia, known as the Southern Growth Triangle. There are also possibilities of growth triangles emerging in South Asia in the not-too-distant future.

Emerging prospects for China and India

China has already established itself as the third largest economic power in the world. Many experts confidently predict that it could emerge as the world's leading economic power in two to three decades. The remarkable rate of growth achieved by China since the early 1980s (at an average rate of some 10.9 per cent)[16] underscores the outstanding potential of this huge economy of more than 1 billion consumers. For instance, over the past 15 years companies from Hong Kong have invested about $17 billion in Guangdong, where they now control 3,000 enterprises and employ 3 million workers. Though Japan overtook Hong Kong last year, China's leading trading partner, the territory has accounted for 64 per cent of $135 billion committed to ventures in China since 1979.[17] In 1993, China attracted a total $15 billion of FDI.[18]

Likewise, though not yet as dramatic in terms of growth rates, developments in the South Asian subcontinent, particularly in India, are highly attractive to traders and investors. Policy reforms, particularly in relation to trade and investment, have been implemented extensively in most of the ESCAP region, a factor which has been instrumental in the continuing dynamism of the region. Recently, the pace of this reform has been breathtaking in India, the second most populous country in the world. In July 1991, India introduced very liberal economic policy packages involving the decontrol and reduction of tariffs on imports, greater incentives to exports and investments, simplification of a variety of procedures relating to trade and investment, and liberalization of the exchange rate regime culminating in the floating of its currency for trade and remittance-related transactions. The pace of reform continues unabated. The impact of India's growing dynamism is beginning to be felt in South Asia and the rest of the region as well as outside. India has already expanded the share of its exports to the developing economies of the ESCAP region from 11 per cent in 1988 to 17 per cent in 1992. Transnational corporations and other potential investors are increasingly attracted by the prospects and opportunities offered by a middle class of 200 million in India. India also has the advantage of a well-established institutional structure, providing the Government with the tools for economic management, as well as a well developed legal system and courts that enforce the law with reasonable objectivity - factors with which China is not as adequately endowed as yet.[19]

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[16] *The Economist* (London), 5 March 1994.

[17] *The Time Magazine*, 21 March 1994.

[18] *The Economist* (London), 5 March 1994.

The economic prospects for both China and India are very bright as economic power houses of the region. Recent Japanese investments in China and South Asia indicate that the trade share of China and South Asia will grow.[20]

There is some concern that China and India may divert some potential investments from the ASEAN countries. It has been reported that foreign investors' commitments in Indonesia, Malaysia and Thailand fell again in 1993 while investments in China, and, to a lesser extent in India, have shown quantum leaps[21] (see table 3). It is not possible to prove conclusively that such diversion is indeed taking place and it may in any case be no more than a transitional phenomenom as the ASEAN countries move on to more sophisticated and value-added production processes, while more labour-intensive processes move to labour-abundant countries, including China, India and Viet Nam. Nevertheless, the ASEAN countries are gearing up to meet any such possibility through securing greater comparative advantage and economies of scale by removal of tariff and non-tariff barriers to attract more investment and trade (e.g. AFTA-plus and growth areas).

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[19] *Ibid.*

[20] Shigeyuki Abe, *op.cit.*

[21] Chia Siow Yue, *op.cit.*

Table 3: Foreign investment commitments in selected Asian countries, 1993

(Millions of dollars and percentage increase over 1992)

Country	United States	Europe	Japan	Asian NIEs	Total[a]
China[b]	3121 (470)	1068 (35)	2173 (168)	47001 (538)	58124 (385)
India	1135 (139)	672 (42)	84 (-64)	64 (6-)	2906 (94)
Indonesia	385 (-58)	756 -34)	798 (-43)	2490 (38)	7719 (-4)
Malaysia	213 (-5)	75 (-93)	257 (-16)	248 (-27)	912 (-60)
Philippines	88 (42)	125 (160)	112 (160)	93 (53)	529 (85)
Thailand	16 (-86)	35 (-68)	66 (-68)	42 (-14)	233 (-68)
Singapore[c]	899 (21)	531 (39)	482 (-9)	n.a.	1951 (15)

Source Merrill Lynch, as reported in *Straits Times*, 13 April 1994.

[a] Includes other sources.

[b] 1992.

[c] From *Economic Survey of Singapore 1993*.

Other regional trading arrangements

There has been a growing concern among ESCAP developing countries about the trade and investment diversion affect of the enlarged European Union and NAFTA. Both arrangements cover areas besides trade, influencing in their entirety production, investment, wages and trade etc. While the situation has given rise to widespread concern, their overall effects for the region remain a matter of speculation. Their relevance can be assessed from the following:

- The United States continues to remain an important market for

ASEAN exports. In 1991, 19 per cent of total ASEAN exports went to that country, as against 18 per cent to Japan and 15 per cent to EU, up significantly from 1970.[22]

- In 1993, trade between China and the United States totalled almost $40 billion.

The best hope is that, given the dynamism of the region and its potential, neither EU nor NAFTA members would wish to do anything which could undermine their respective long-term interests in the growing markets of the ESCAP developing countries. At any rate, both the expanded EU programme and the existence of NAFTA are "faits accomplis", and the developing countries in the ESCAP region will be better served by taking such remedial measures as may be useful to overcome any possible adverse effects in terms of trade and investment diversion. In this regard, one possible set of policy approaches could be continuing liberalization of trade and investment regimes. In fact, unilateral trade liberalization has been successfully pursued by the developing countries in the Asian and Pacific region in the context of their structural adjustment programmes and with a view to enhancing their competitiveness. The liberalization has, of course, been carried out in varying degrees, and with differing impacts.

Open trading arrangements in the post-Uruguay Round Agreement

Open trading arrangements have been vital for the growth and development of countries in the ESCAP region and will remain so in the future. Viewed from this perspective, the conclusion of the Uruguay Round and the signing of the Final Act at Marrakesh on 15 April 1994 have been, on balance, welcome developments for the developing countries of the ESCAP region. Over the course of a decade, possibly beginning from as early as January 1995, in developed countries industrial tariffs will be cut by 38 per cent and farm tariffs by 37 per cent. Overall tariffs would be cut by a weighted 61 per cent in Japan, 37 per cent in the European Union and 34 per cent in the United States. The Multi-Fibre Arrangement (MFA) will be phased out in four stages over 10 years. All quantitative limits on agricultural goods will be replaced by tariffs (tariffication). Export subsidies, including those linked to use of local content, will be prohibited. The developing countries agreed to bind 72 per cent of their tariffs, up from 22 per cent currently. Overall, Asian countries agreed to bind 70 per cent of their imports - a measure which "should ensure the security of market access and should promote intra-Asian trade".[23]

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[22] W.E. James, M.E. Kreinin and G. Plummer, *Changing Patterns of Trade in a Changing Global Environment: Towards Interdependent Growth and Open Regionalism* (Osaka: JAPANPECC, 1993).

The benefits to ESCAP countries are potentially substantial. In view of the trade orientation of the economies in the region, many of which have been experiencing fast growth, the gains are likely to be much higher than in other regions. In the process, the region will benefit from higher national and per capita income, greater employment opportunities and a wider choices for consumers.

The benefits for the developing countries in the region are likely to be wide-ranging. For instance, textiles and clothing constitute a substantial segment of exports for Bangladesh, China, Fiji, Hong Kong, India, Republic of Korea, Macau, Pakistan, the Philippines, Sri Lanka, Tonga and Tuvalu. GATT economists predict a 60 per cent jump in trade over 10 years and a 34 per cent rise in textiles. As producer of more than 40 per cent of all textile and clothing exports, Asia is likely to gain significantly.[24] Likewise, Malaysia and Singapore are likely to gain from the substantial tariff reduction in electronic machinery. Thailand, as Asia's leading food producer, is expected to gain significantly from the liberalization of agricultural trade. (For more detail, see table 4).

The full impact of the Uruguay Round will require time and space to assess. Suffice it to say for the purpose of this paper that implementation of the agreements will entail considerable economic adjustments and restructuring of production processes both at the country level and in the ESCAP region at large. For instance, estimates suggest that, for Hong Kong, half of its over 200,000 textile jobs may not survive after adjustments. However, the surplus labour can be easily absorbed in other

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[23] *Far Eastern Economic Review*, 28 April 1994.

[24] *Ibid.*

Table 4: Tariff reductions resulting from the Uruguay Round in product groups of export interest to developing countries in Asia

Product group	% tariff reduction		Developing countries in Asia with substantial exports of these products
	North America	Western Europe	
Textiles and clothing	15	20	Bangladesh, China, Fiji, Hong Kong, India, Republic of Korea, Macao, Pakistan, Philippines, Sri Lanka, Tonga, Tuvalu
Metals	63	35	Papua New Guinea
Mineral products, precious metals and stones	31	22	Brunei Darussalam, Fiji, India, Indonesia
Electric machinery	56	37	Malaysia, Singapore
Leather, rubber, footwear and travel goods	11	23	Cambodia, Tonga
Wood, pulp, paper and furniture	76	67	Myanmar, Cambodia, Indonesia, Malaysia, Solomon Islands
Non-electric machinery	63	61	Singapore, Tuvalu
Coffee, tea, cocoa, sugar	35	29	Fiji, Indonesia, Papua New Guinea, Singapore, Sri Lanka, Tonga
Fruits and vegetables	38	32	Myanmar, Philippines, Thailand, Tonga, Tuvalu
Oilseeds, fats and oils	43	34	Cambodia, Indonesia, Malaysia, Papua New Guinea, Philippines, Solomon Islands
Animals and animal products	36	25	Tuvalu
Other agricultural products	49	44	Pakistan

Source: *Far Eastern Economic Review*, 28 April 1994 (based on data of GATT) sectors of the growing economy.[25] Exporters of electronic goods in Singapore and Malaysia may have to expand production and improve distribution networks to gain a bigger market share. On the other hand, the Philippine sugar industry may have to adjust to the loss of preferential access to the United States market.

Simultaneously, these countries need to prepare for the vast trading opportunities that will surely accrue from the opening up of the services sector, where it has been agreed to accord MFN treatment. Negotiations in the services sector will be the most critical element in international trade in the post-Uruguay Round situation under the World Trade Organization which is to be established. (The estimated value of world trade in services is some $1 billion per year).

Evolving needs in infrastructure development

All the above will surely require major changes in policy in countries of the region and, to a certain degree, harmonization of policy initiatives.

As the region's development continues and accelerates, opportunities in some of the services sectors in particular, and infrastructure development in general, will also gain in importance. A study presented by the ESCAP secretariat to the fiftieth session of the Commission estimated that:

- By the year 2000, electricity-generating capacity will have to be doubled;
- The number of main telephone connections will similarly need to be doubled;
- Two million kilometres of new roads will have to be built, equivalent to 50 times the earth's circumference. Of these new roads, India alone would require almost one half with emphasis on rural roads.

The study put the approximate financial resource requirements for development of infrastructure at an average of $140 billion per year (see table 5). The large-scale efforts needed to upgrade existing facilities and promote further infrastructural development can never be achieved by the efforts of Governments alone. In fact, several countries in the region have gained considerable experience in mobilizing additional savings through innovative measures, involving private sector participation, promotion of financial intermediaries, broadening the tax base and improving the efficiency of collection. Recently, self-financing of infrastructure has become a favoured option, stimulated by rapid economic expansion and rising levels of private disposable income. Under this option, costs of development, operation and maintenance are fully borne by users.[26] Furthermore, Governments are tapping major TNCs for both investible resources and expertise for accelerated development of the physical and service infrastructure. Simultaneously, they are also exploring equity markets to raise new capital.

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[25] *Ibid.*

These new bold and innovative measures will have tremendous impact in terms of creating new investment and trading opportunities for the region as a whole. In this connection, the importance of infrastructure development, including in particular the development of human resources and upgrading the levels of skills, can not be over-emphasized. Inadequate attention to these aspects would constrain development and trading opportunities.

III. CONCLUSION

A decade ago, the share of ESCAP countries in world trade was barely 11 per cent. It now stands at nearly a quarter, with Asian developing countries accounting for some 15 per cent of an estimated total value of $3.6 trillion in 1992 (see table 6). While the rapid rise in the share of the region is a welcome development, it should be borne in mind that some 58 per cent of the world's population lives in this region. Even after double-digit growth sustained by China since the early 1980s, its share of world exports is still only a mere 2.3 per cent at present (see table 7), whereas it has one fifth of mankind. Similarly, in India 40 years of restrictive trade policies have reduced its share of world exports to an insignificant 0.5 per cent, as compared with 1.9 per cent in 1950. These glaring data reveal the inadequacies and the challenges for trade and investment opportunities that the countries in the region will have to confront. Given the performance of recent years, and considering that the region is relatively free from armed conflicts after a long time, one can confidently hope that an impressive beginning has been made by countries of the region to face up to those challenges.

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[26] "Infrastructure development as key to economic growth and regional economic cooperation" (ST/ESCAP/1364), 1994.

Table 5: Financial resources required for infrastructure development in the ESCAP region up to the year 2000

Sector	Requirements	Shortfall
Power supply[a]	634	472
Water supply/waste	298	149
Telecommunications	133	110
Railways	78	43
Roads	162	45
Urban transport	68	57
Airports	45	40
Seaports	26	7
Total	1 444	923

Source: ESCAP, *op.cit.*

[a] Upper end of range.

Table 6: Shares of selected Asian countries in world trade in 1992

Country	Exports ($ billion)	Share of world trade (Per cent)	Increase in exports over 1991 ($ billion)
World	3 731.0	100.00	755.0
Developing Asia[a]	573.2	15.4	116.3
of which:			
Hong Kong	119.5	3.2	24.2
China	85.0	2.3	17.4
Taiwan Province of China	81.5	2.2	16.6
Republic of Korea	76.6	2.1	15.9
Singapore[b]	63.5	1.7	12.8
Malaysia	40.6	1.1	8.3
Thailand	32.5	0.9	6.8
Indonesia	29.3	0.8	6.0
India	19.6	0.5	3.8
Philippines	9.7	0.3	2.3
Pakistan	7.3	0.2	1.5
Sri Lanka	2.6	0.1	0.5
Bangladesh	2.1	0.1	0.5
Japan	340.0	9.1	68.7

Source: *Far Eastern Economic Review*, 28 April 1994 (based on data of GATT and IMF).

[a] Excluding Brunei Darussalam, Cambodia, Lao PDR, Macao, Myanmar and Viet Nam.

[b] Including reexports.

Table 7: Leading exporters and importers in world trade, 1992

(Value in billions of dollars; share and change in per cent)

Exporter[a]	Value (f.o.b.)	Share in 1992	Increase over previous year		Importer[a]	Value (c.i.f.)	Share in 1992	Increase over previous year	
			1991	1992				1991	1992
United States	447	12.1	7.2	6.0	United States	552	14.4	-1.6	8.5
Germany	429	1.6	-4.3	6.6	Germany	408	10.7	9.6	4.7
Japan	340	9.2	9.5	7.9	France	240	6.3	-1.1	3.4
France	236	6.4	0.2	8.6	Japan	233	6.1	0.7	-1.8
United Kingdom	191	5.2	-0.1	3.5	United Kingdom	222	5.8	-5.8	5.5
Italy	175	4.7	-0.5	3.2	Italy	185	4.8	0.4	1.4
Netherlands	140	3.8	1.1	5.0	Netherlands	134	3.5	0.3	5.9
Canada	135	3.6	-0.4	5.8	Canada	130	3.4	1.2	3.8
Belgium-Luxembourg	123	3.3	0.4	4.0	Belgium-Luxembourg	126	3.3	0.4	4.5
Hong Kong[b]	118	3.2	20.0	20.0	Hong Kong[c]	122	3.2	21.6	21.5
China	85	2.3	15.9	118.2	Spain	100	2.6	7.2	6.2
Taiwan Province of China	81	2.2	13.3	7.0	Republic of Korea	82	2.1	16.7	0.2
Republic of Korea	77	2.1	10.5	6.8	China	81	2.1	19.6	26.4
Switzerland	66	1.8	-3.6	6.8	Taiwan Province of China	72	1.9	15.3	15.0
Spain	65	1.7	7.2	8.7	Singapore[c]	72	1.9	8.9	9.2
Singapore[d]	64	1.7	11.9	7.6	Switzerland	66	1.7	-4.6	-1.1
Sweden	56	1.5	-4.1	1.6	Mexico[e]	62	.6	23.6	23.5
Saudi Arabia	48	1.3	9.9	-2.0	Austria	54	1.4	3.4	6.3
Mexico[e]	46	1.2	5.2	5.9	Sweden	50	1.3	-8.7	0.1
Austria	44	1.2	-0.4	8.0	Australia	45	1.2	1.0	7.0
Australia	42	1.1	5.2	0.7	Thailand	41	1.1	12.6	9.6
Denmark	40	1.1	2.4	9.9	Malaysia	39	1.0	25.3	7.5
Malaysia	40	1.0	16.8	15.0	Denmark	34	0.9	0.5	3.8
Brazil	36	1.0	0.7	114.5	Saudi Arabia	34	0.9	24.6	12.0
Norway	35	1.0	0.2	3.1	Portugal	30	0.8	3.4	14.0
Sub-total	3 154	85.3	3.5	6.9	**Sub-total**	3 211	83.8	3.3	6.3
World	3 700	100	1.7	5.7	**World**	3 830	100	1.8	6.0

Source: *GATT Activities 1992*, Geneva, GATT, June 1993 (figure 4).

[a] In descending order of exports or imports.

[b] Including reexports. In 1992 reexports rose by 28 per cent to $88.1 billion. domestic exports increased by less than 2 per cent, to $30.2 billion.

[c] Including substantial imports for reexport.

[d] Including reexports. In 1992, reexports rose by 9.5 per cent to $22.5 billion. Domestic exports increased by 6.5 per cent to $41 billion.

[e] Including estimates of trade flows through processing zones.

A PRELIMINARY ANALYSIS OF THE RESULTS OF THE URUGUAY ROUND AND THEIR EFFECTS ON THE TRADING PROSPECTS OF DEVELOPING COUNTRIES

Report by the UNCTAD secretariat[*]

INTRODUCTION

In accordance with its mandate and work programme, the Ad Hoc Working Group on Expansion of Trading Opportunities for Developing Countries is to analyze the results of the Uruguay Round and their effects on the trading prospects of the developing countries, including identification of product and export market opportunities which are a consequence of trade measures to implement the results of the Uruguay Round. In view of the timing of the completion of the Uruguay Round, the Ad Hoc Working Group had, at its second session, agreed by consensus to recommend to the Trade and Development Board to extend the period of the Group's mandate to the end of June 1994 in order to allow the Group to complete its work. The Group's fourth and final session, which is scheduled for 4-8 July 1994, will thus be devoted to a consideration of the results of the Uruguay Round and their effects on the trading prospects of developing countries.

In order to prepare the background analysis necessary for the Group's consideration of the results of the Uruguay Round, the Ad Hoc Working Group had also agreed at its second session to request participants of the Uruguay Round to provide the UNCTAD secretariat at the earliest date feasible with final lists of concessions made in the Uruguay Round.

The Final Act of the Uruguay Round was signed at Marrakesh, Morocco, on 15 April 1994. At the time of writing (May 1994), since this date, the UNCTAD secretariat had received only a limited number of final lists of concessions of Uruguay Round participants. This circumstance in conjunction with the relatively brief period in which the secretariat has had to undertake an analysis of the concessions and other results of the Uruguay Round has affected both the breadth and depth of the current report. For example, it was not possible to be comprehensive in the coverage of markets. Instead, the analysis of market access concessions is focused on the major markets, the so-called "Quad countries" - i.e. Canada, European Union, Japan and the United States - which together account in value for around two-thirds of world merchandise imports and for nearly 80 per cent of world service imports. In addition, given the multifaceted nature of the Uruguay Round results, the current report has been constrained to be selective in its analysis of those results. Accordingly, the report focuses on trade liberalization concessions and their implications for the market opportunities of developing countries and on those rule-making results with major implications for the domestic policy options of developing countries to promote export sector development.

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Chapter I provides a general overview of the Uruguay Round agreements. Chapter II identifies broadly the export interests of developing countries in global trade in goods and services. Against this background, chapter III analyses, from the perspective of market opportunities for developing countries, the market access concessions of the Uruguay Round, in particular those of the "Quad countries". This chapter also contains an assessment of the possible impact of the market access concessions on trade flows. The final chapter considers the rule-making agreements of the Uruguay Round and their implications for the national policy options of developing countries to boost their export supply capabilities.

Given the range and complexity of the Uruguay Round agreements, this report should be seen as a first, preliminary, attempt by the UNCTAD secretariat to analyze the results of the Uruguay Round.

Chapter I

I. AN OVERVIEW OF THE URUGUAY ROUND AGREEMENTS

This chapter provides a brief overview of the results of the Uruguay Round focusing on selected issues and outcomes. These are summarized in table I.1 and discussed further below.

Market acess

The outcome of the Uruguay Round in the area of tariffs comprises essentially four elements: a complete elimination of tariffs in 11 sectors;[1] a liberalization component reflected in the fact that average tariffs on industrial goods will decline by about 38 per cent (on a trade-weighted basis); a substantial increase in the level of bound tariffs; and a harmonization component which results in higher tariffs being subject to deeper cuts. As a result, the trade-weighted average tariff in industrial countries will decline from 6.4 per cent to 4 per cent and some 40 per cent of imports will enter duty free. The proportion of tariffs which are bound on industrial products in developed countries will increase from 78 per cent to 97 per cent and the proportion bound in developing countries from 21 per cent to 72 per cent. The precise implications for specific products will be apparent only from a close examination of the voluminous tariff schedules that form part of the agreement. More details on tariff concessions are provided below in chapter II of this report.

As tariffs have declined over the post-war period, reliance on non-tariff measures (NTMs) has increased, most notably since the mid-1970s. Their discriminatory application (largely against developing countries) and their opacity have been eroding the basic principles of GATT. Although there was a separate negotiating group on NTMs, the issue overlapped with agriculture, safeguards and anti-dumping negotiations. The outcome involves important commitments, not the least of which is the prohibition on the use of VERs, orderly marketing arrangements and other extra legal instruments.

Sectors[2]

Agriculture was the single most contentious issue in the Round. The outcome for agriculture has been the first occasion on which temperate zone agriculture has been subject to any liberalization under GATT. The Agreement on Agriculture provides for commitments on market access which require the conversion to custom duties ("tariffication") of all measures affecting imports, the binding of the resultant tariffs and their subsequent reduction[3] as well as the maintenance of current access opportunities and minimum access tariff quotas at reduced tariff rates. The Agreement also provides for the reduction of domestic support measures in favour of agricultural producers[4] as well as of the value and volume of export subsidies. Developing countries are not required to make commitments to reduce subsidies aimed at reducing the cost of marketing exports, including internal and international transportation and freight. There are special provisions relating to food aid and assistance for the least developed and net food-importing developing countries.

Trade *in textiles and clothing* has been subject to a special derogation, the Multi-Fibre Arrangement (MFA), from the non-discrimination clause of the General Agreement on Tariffs and Trade (GATT). The MFA provides a framework for the negotiation of bilateral agreements between "importing" (i.e. developed) countries and "exporting" (i.e. developing) countries to restrain the exports of the latter to the former. The Uruguay Round Agreement commits countries to phase out the MFA over a 10-year period, leading to the "integration" of this sector into GATT 1994, i.e. the same rules will apply to trade in textiles and clothing as to any other product sector. The integration process will involve the elimination of current restrictions under the bilateral agreements up to the year 2005; and an increase of the quotas for products remaining under restraint during the 10-year transition period. Other restrictions not covered by the MFA will have to be either brought into conformity with GATT 1994 within one year, or phased out progressively before 2005. There will be a "transitional safeguard mechanism" during the 10-year period, under which new restrictions can be negotiated or imposed, on a selective basis, when importing countries determine that imports of textile and clothing products are causing "serious damage" to their domestic industries.

GATT system

The agreement on *Safeguards* contains detailed rules aimed at ensuring proper use of, and respect for, the multilateral safeguard system. It provides for more transparent national procedures, a fixed timetable for the progressive phasing out of safeguard measures, and a threshold for

Table I.1: Uruguay Round agreements: a synopsis by selected issue and outcome

Issue	Outcome
Trade barriers	
Tariffs	• Average tariffs on industrial products cut by 38% • Elimination of duties in 11 sectors • increase in proportion of bound duties
Non-tariff Measures	• Prohibition of grey area measures • Tariffication of NTMs in agriculture
Sectors	
Natural resource-based products	• Tariff reduction; increase in proportion of bound duties; some progress on escalation
Tropical products	• Reduction in tariff peaks; increase in proportion of bound duties; some progress on escalation
Textiles and clothing	• Four-stage phase out of MFA • Transitional safeguards • Constraints on circumvention
Agriculture	• Tariffication of NTMs and gradual reduction thereof • Constraints on non-decoupled domestic support • Reduction in value and quantity of products subject to export subsidies • Affirmation of rights and objections in sanitary and phytosanitary measures • Concessions for developing and least developed countries
GATT system	
Safeguards	• Prohibition of grey area measures • Explicit sunset arrangements • Tighter criteria for application • Limited provision for discrimination
Subsidies and CVDs	• Traffic light system introduced (prohibited, 'actionable', and unprohibited subsidies) • Disciplines on use of CVDs
GATT Articles	• Requirements that interventions under XII and XVIII be price based • Clarification and reinforcement of XXIV criteria • Strengthening of procedures for calculating dumping margin under VI, as well as strengthening injury test and dispute settlement • Strengthening of provisions on rules of origin and pre-shipment inspection

Continued

Table I.1: Uruguay Round agreements: a synopsis by selected issue and outcome (Continued)

Issue	Outcome
MTNs	• New procedures for negotiation of compensation when bindings are modified to assist developing countries in negotiations
TRIMs	• Prohibition of TRIMs inconsistent with Articles III and XI • Phase-out of existing TRIMs • Concessions for developing countries
New Issues	
TRIPs	• General commitment to MFN where possible • Specific provisions on copyrights, trademarks, geographical indications, industrial designs, patents, layout designs of ICs, trade secrets • Phased transition for developing countries
Services	• General commitment to MFN where possible • Arrangements for progressive liberalization • Specific institutional provisions for: air transport, financial services, telecommunications
WTO	• Creation of WTO - "umbrella" organization • Commitment to sustain TPRM • Integrated dispute settlement system

safeguards against developing countries. It also requires members to phase out all voluntary export restraints and other "grey area" measures. However, while it states that safeguard measures shall be applied to a product regardless of source (i.e. on a most-favoured-nation (MFN) basis) it also permits members to depart from the obligation when imports from certain countries have increased in "disproportionate percentage" in relation to the total increase in imports over a specific period.

The new agreement on *Subsidies and Countervailing Measures* for the first time contains provisions on the definition of a subsidy and identifies subsidies which are to be prohibited, permitted, or applied only if they do not prejudice the trade interests of other countries. It also contains clearer rules for countervailing duties to protect domestic industries against subsidized imports and for other recourse against trade-distorting subsidies.

A whole series of *GATT Articles* were reviewed and in some cases amended by the Uruguay Round. To constrain abuse of balance-of-payments interventions, it will henceforth be required that actions under Articles XII and XVIII be price-based. Article XXIV, which permits the establishment of regional trading arrangements (RTAs) has had its criteria clarified and reinforced to make agreement on RTAs less "automatic" than at present. The arrangements regarding Article VII's provisions for customs valuation have been tightened. All of these are significant. However, potentially the most important development in this area is the strengthening of anti-dumping provisions in Article VI.

The new agreement on *anti-dumping* contains more detailed procedures concerning "Determination of Dumping" and "Determination of Injury", which could be considered generally as a positive outcome for countries which are subject to anti-dumping investigations. An important new provision is the requirement of "immediate termination" of investigation in cases where the margin of dumping is *de minimis* or the volume of dumped imports, actual or potential, or the injury is negligible. It also includes a "sunset clause" which provides that an anti-dumping duty should be terminated not later than five years from its imposition.

In the area of *trade-related investment measures* (TRIMs), the agreement is essentially an affirmation of the applicability of existing disciplines - notably Articles III (national treatment on internal taxation and regulation) and XI (the general elimination of quantitative restrictions). Those TRIMs which are inconsistent with these articles are prohibited. The agreement specifies a list of prohibited TRIMs which includes some of the most widely used investment measures such as local content requirements and trade balancing requirements and provides for the phasing out of pre-existing measures.

New issues

The agreement on *trade-related intellectual property rights* (TRIPs) provides that members be obliged to apply the principles of MFN and national treatment with regard to the protection of intellectual property. In addition, specific provisions relate to: copyrights and related rights, trademarks, geographical indications, industrial designs, patents, layout-designs of integrated circuits, trade secrets and control of anti-competitive practices. The obligations on the part of Governments to ensure enforcement are set out in each clause. The transition period for developed countries is relatively short (one year), the assumption being that most have pre-existing regimes. The transition is somewhat longer for developing countries (five years) and longest for the least developed (11 years). Where implementation of the agreement would entail extending product patent production to a field of technology not previously protected, an additional grace period is permitted (five years).

The *General Agreement on Trade in Services* (GATS) provides a new multilateral legal framework to govern trade in services. It contains a set of general principles, mainly the unconditional most-favoured nation clause to govern "trade" in services, which is defined to include services supplied through (i) cross-border movement, (ii) movement of the consumer, (iii) commercial presence (i.e. right of establishment for investment), and (iv) movement of natural persons (i.e. the modes of supply). However, the commitments of members to provide market access and national treatment are confined to what is specifically included in their Schedules of Commitments. These commitments can apply to any sector or sub-sector and any of the four modes of supply.

WTO

One of the major aspects of the results of the Uruguay Round is the establishment of the *World Trade Organization* (WTO). WTO will be an "umbrella" institution. Its main purpose is to bring all the agreements of the Uruguay Round within a single contractual framework. The WTO Agreement itself has no substantive rules or principles other than those which are included in the multilateral trade agreements annexed to the WTO Agreement.

Chapter II

THE EXPORT INTERESTS OF DEVELOPING COUNTRIES

In accordance with its work programme, the Ad Hoc Working Group on Expansion of Trading Opportunities for Developing Countries is to analyze the effects of the results of the Uruguay Round on the trading prospects of developing countries, including identification of opportunities arising from the reduction of tariffs and non-tariff measures on products of export interest to them. Accordingly, this chapter and the one following focus on the market opportunities for developing countries arising from the Uruguay Round. Against the background of an overview of developing countries' export interests in world trade in goods and services, chapter III will analyze, from the perspective of developing countries, the market access concessions of the Uruguay Round, particularly those related to major import markets.

The current export interests of developing countries reflect basically the categories of goods and services developing countries are currently capable of producing and supplying competitively on international markets. These are to be distinguished from potential export interests which reflect not only horizontal production possibilities at basically the same level of technological sophistication but also shifts in production possibilities and comparative advantage, owing to increases in technological capabilities and other factor endowments.

A. Developing countries in world trade: recent trends

Whereas the share of developing countries in world merchandise exports (excluding fuels) has tended to increase over the past decade, their share of world exports of services has been on a declining trend. As will be noted from table II.1, while the former share rose from 14.4 per cent to 19.2 per cent between 1980 and 1992, the latter share had declined from 20.8 per cent to 18 per cent (between 1985 and 1992). It will also be noted that the increasing share of developing countries in world merchandise trade is due mainly to their rising share in world manufactures' trade, which almost doubled between 1980 and 1992, compensating for falling shares in other product categories - i.e. agricultural and metal products - between 1985 and 1992.

These aggregate figures for developing countries as a whole, which reflect an expansion of exports driven mainly by manufactures, conceal considerable differences among developing regions and individual countries. Regionally, Africa, the Middle East and Latin America all experienced relative declining shares in world exports during the 1980s in contrast with a steady upward trend for the Asian region. The bulk of this expansion was accounted for by a small but growing number of Asian countries.[5] Some other developing countries in other regions have also shown some dynamism in developing their exports in recent years and it can be expected that improved market access conditions will give impetus to their trade expansion.

Table II.1: Share of developing economies in world exports by major product group

(Excluding exports of fuels)

(Percentage)

	Agricultural products	Ores and metals	Manufactures	Total exports (excl. fuels)	Commercial services
1980	28.6	26.1	9.7	14.4	..
1985	29.8	27.3	13.6	16.8	20.8
1992	25.2	26.3	18.2	19.2	18.1
Memo: Value of world exports (Billions of dollars)					
1980	295.0	93.4	1 085.2	1 520.2	..
1985	260.4	70.6	1 188.7	1 571.8	386.5
1992	456.8	114.7	2 707.5	3 364.3	962.0

Source: UNCTAD secretariat computations based on United Nations Statistical Office data.

B. The composition and destination of developing countries' exports

Information on the current product composition and main destinations of the non-fuel merchandise exports of developing regions is provided in table II.2. As will be noticed, for developing countries overall, manufactures account in value terms for about 76 per cent of their total non-fuel exports. For the South and South-East Asian region, the share of manufactures in non-fuel exports, at 86 per cent, is even higher. In contrast, the African region and least developed countries have the lowest shares of manufactures in their non-fuel exports (approximately 40 per cent and 31 per cent, respectively). In fact, for least developed countries and the African region, agricultural products constitute their largest category of exports. The proportion of ores and metals in the exports of least developed countries is the highest for all groups of countries shown in table II.2.

With regard to the main destinations of developing countries' exports, table II.2 indicates that currently around 59 per cent of developing countries' total non-fuel exports are absorbed by the developed market-economy countries (DMECs), about 32 per cent by other developing countries, about 7 per cent by socialist Asia (including China) and 1.7 per cent by Eastern Europe. The three major developed country markets - European Union-12, United States and Japan - alone account as destinations for about 53 per cent of developing countries' total non-fuel exports. From the regional perspective, developing Africa, the least developed countries and developing America have the highest shares of their non-fuel merchandise exports destined for DMECs - 73.1 per cent, 68.2 per cent and 64.2 per cent, respectively. Again, the concentration is on the three major developed-country markets; and in the case of Africa, the share of one market alone, the European Union-12, is about 57 per cent. West Asia is the only developing country region which exports less than 50 per cent (in fact only about 46 per cent) of its non-fuel exports to DMECs.

The foregoing analysis suggests, broadly speaking, that while exports of agricultural products and ores and metals remain a major component of foreign exchange earnings for many developing countries for which the new market conditions emerging from the Uruguay Round may offer increased export prospects, the interest of developing countries in trade expansion may lie more in the improvement of their capacities to export

Table II.2

Merchandise exports of developing regions by main destination and product group, 1992

(percentage of region's merchandise exports)

	World	Total DMEC	EU	U.S.A.	Canada	Japan	Other DMEC	Total Dev'ing	Eastern Europe	Socialist Asia
Developing countries										
Agricultural products	17.8	10.7	4.9	2.6	0.2	2.4	0.4	5.5	0.8	0.6
Ores and metals	4.7	3.0	1.3	0.5	0.1	0.9	0.2	1.2	0.1	0.3
Manufactures	76.1	44.1	15.1	19.2	1.2	5.2	2.8	24.8	0.8	5.9
Total exports excl. fuels	100.0	58.6	21.7	22.7	1.5	8.6	3.6	31.9	1.7	6.9
America										
Agricultural products	39.3	26.6	13.4	9.6	0.4	2.1	0.7	9.2	2.8	0.4
Ores and metals	13.5	10.1	4.5	2.3	0.2	2.6	0.5	2.5	0.4	0.4
Manufactures	46.1	26.9	6.4	17.6	1.0	1.0	0.7	18.4	0.2	0.3
Total exports excl. fuels	100.0	64.2	24.5	29.8	1.6	5.7	2.0	30.2	3.4	1.1
Africa										
Agricultural products	45.0	32.9	25.5	2.1	0.3	2.6	1.4	9.0	1.6	0.4
Ores and metals	14.9	12.0	8.1	1.1	0.2	2.0	0.5	2.2	0.2	0.1
Manufactures	38.9	26.9	23.1	2.2	0.2	0.2	0.5	10.4	0.8	0.4
Total exports excl. fuels	100.0	73.1	57.4	5.6	0.7	5.1	2.4	21.8	2.6	1.0
West Asia										
Agricultural products	22.1	9.1	6.9	0.8	0.1	0.4	0.8	10.5	2.1	0.1
Ores and metals	7.8	2.6	1.1	0.2	0.0	1.0	0.3	4.5	0.2	0.4
Manufactures	69.0	33.3	25.3	3.0	0.3	1.1	3.2	30.7	2.7	1.4
Total exports excl. fuels	100.0	45.7	33.6	4.1	0.4	2.7	4.3	46.1	5.0	1.9
South and South-East Asia										
Agricultural products	10.9	5.8	1.6	1.2	0.1	2.6	0.2	4.2	0.2	0.7
Ores and metals	1.7	0.7	0.1	0.1	0.0	0.5	0.0	0.7	0.0	0.3
Manufactures	86.0	49.7	15.2	22.3	1.5	6.9	3.3	27.5	0.7	8.0
Total exports excl. fuels	100.0	57.1	17.1	24.0	1.6	10.1	3.6	32.7	0.9	9.2
Least developed countries										
Agricultural products	45.9	23.9	15.4	2.4	0.3	4.0	1.3	16.8	2.7	0.8
Ores and metals	22.0	18.7	11.2	2.0	0.5	4.8	0.2	2.6	0.1	0.1
Manufactures	30.7	24.3	14.4	7.7	0.4	0.4	1.2	5.2	0.3	0.5
Total exports excl. fuels	100.0	68.2	41.8	12.6	1.1	9.2	2.8	24.7	3.1	1.3

Source: UNCTAD secretariat computations based on United Nations Statistical Office data.

manufactured products. In addition, notwithstanding the undoubted potential for increased South-South trade and trade with the economies in transition, it seems likely that such expansion may result mainly from their trade with developed countries. Thus, a major objective for developing countries may consist in taking the fullest advantage of the improved market access conditions in the developed economies for their exports.

C. *Products of current and potential export interests to developing countries*

1. *Agricultural products*

In spite of the declining trend of developing countries' trade in agricultural products in relation to trade in manufactures over the past decades, trade in this product sector remains important for many developing countries. Much of the interest of developing countries in expanding their trading opportunities in the agricultural sector lies in products which are produced mainly in tropical climates which have traditionally accounted for substantial shares of their export earnings. Nevertheless, developing countries have also demonstrated substantial interest in exports of "temperate-zone products", as can be observed in tables II.3 and II.4

These tables show the importance of developing countries' trade in a number of product sectors in terms of the market size, their participation in this trade and the contribution of the various product groups to total earnings from exports to the developed market-economy countries. Imports of agricultural products into these markets from developing countries as a group, which amounted to $72 billion in 1992, represented 24 per cent of all agricultural imports and accounted for 18 per cent of total earnings from non-fuel exports to DMECs. Product groups of particular export interest to developing countries include vegetables and fruits (tropical and non-tropical), especially for Latin American countries, with a 20 per cent share of the market; coffee, tea, cocoa and spices taken together, for which all three groups of developing countries have substantial market shares, but more specifically Latin America and African countries; vegetable oils (mainly tropical), for which Asian developing countries hold one-third of the market in imports by DMECs; and the meat sector, which is relatively important in terms of the

Table II.3: Shares of developing countries in imports by DMECs of selected product categories, 1992

(Imports in millions of dollars; shares in per cent)

Product	Total imports	Developing countries' market share			
		All	Africa	America	Asia
Agricultural products (excluding NRBPs)	303 728	23.7	3.1	10.9	9.3
of which:					
Meat and meat preparations	34 555	12.0	0.2	6.4	5.0
Cereals and cereal preparations	23 737	5.1	0.1	2.0	3.0
Vegetables and fruit	53 955	33.7	3.0	19.3	10.9
Sugar	8 165	34.8	7.6	17.2	7.9
Coffee, tea, cocoa, spices	17 430	56.9	17.2	28.9	9.9
Oilseeds & oleaginous fruit	8 358	22.9	0.8	20.8	1.0
Fixed vegetable oils	5 683	42.1	6.1	3.7	30.3
Tobacco and tobacco manufactures	10 583	27.0	6.3	12.1	8.2
Natural resource-based products	161 901	27.0	3.7	10.3	12.1
Fishery products	34 726	41.6	4.8	11.7	24.6
Forestry products	48 570	22.4	2.6	4.9	13.7
Non-ferrous metals	78 605	23.4	3.8	13.0	5.6

Source: UNCTAD secretariat computations based on United Nations Statistical Office data.

size of the market which represented more than $4 billion of imports in 1992, and is specially important for developing countries in Asia and America. There is also substantial export interest in sugar for all three groups of developing countries, in particular Latin America. The share of developing countries in imports of cereals and cereal products is relatively low, but there is nevertheless substantial interest in terms of the value of these imports ($1.2 billion in 1992).

While the share of African developing countries in DMECs'imports of agricultural products is generally lower than that of the two other country groupings, their dependence on export earnings from agricultural products is greater, in particular compared to that of the Asian developing countries as a group, as 35 per cent of all imports from African developing countries into developed market-economy countries consists of agricultural products. The interest of African countries in

Table II.4: Contribution of selected product categories to developing countries' total earnings from non-fuel exports[a] to DMECs, 1992

(Millions of US dollars and percentages)

Products	All developing countries		Developing countries in		
	Export value	Contribution	Africa	America	Asia
Agricultural products (excluding NRBPs)	72 039.0	18.1	35.0	32.7	11.0
of which:					
Meat and meat preparations	4 144.2	1.0	0.2	2.2	0.7
Cereals and cereal preparations	1 200.2	0.3	0.1	0.5	0.3
Vegetables and fruit	18 179.0	4.6	6.1	10.3	2.3
Sugar	2 839.6	0.7	2.3	1.4	0.3
Coffee, tea, cocoa, spices	9 910.2	2.5	11.3	5.0	0.7
Oilseeds & oleaginous fruit	1 915.6	0.5	0.2	1.7	0.0
Fixed vegetable oils	2 392.5	0.6	1.3	0.2	0.7
Tobacco and tobacco manufactures	2 860.1	0.7	2.5	1.3	0.3
Natural resource-based products	43 690.0	11.0	22.3	16.4	7.6
Fishery products	14 443.8	3.6	6.2	4.0	3.3
Forestry products	10 870.4	2.7	4.7	2.4	2.6
Non-ferrous metals	18 375.8	4.6	11.3	10.0	1.7
Memo item:					
DMECs total imports (less fuels) (millions of US dollars)	398 446.8	..	26 528.7	101 384.8	257 213.9

Source: UNCTAD secretariat computations based on United Nations Statistical Office data.

[a] Computed on the basis of imports by DMECs.

agricultural trade is important in product groups which consist mostly of tropical products, such as coffee, tea, cocoa, and spices, vegetables and fruit, vegetable oils, tobacco, and sugar. For the Latin American group of countries, the interest in terms of contribution of agriculture to total export earnings covers both tropical and temperate-zone products.

2. *Natural resource-based products*

Developing countries' interest in expanding trading opportunities with regard to natural resource-based products is also reflected in tables II.3 and II.4. Developed market-economy countries' imports of products in this category from all developing countries amounted to nearly $44 billion (27 per cent of all their imports in this sector) in 1992 and they represented more than one-tenth of the value of imports of all products. More than 41 per cent of imports of fishery products into the main developed market-economy countries originated in developing countries, reaching almost $14.5 billion in 1992, mostly from Asian developing countries. Most of the $11 billion worth of imports of forestry products from developing countries also originated in Asia and more than half of developing countries' supplies of non-ferrous metal products, exceeding $18 billion, came from Latin American countries.

As with the agricultural sector, natural resource-based product exports are more important, in terms of share of export earnings, for African developing countries than for those in Latin America and Asia. The three categories of natural resource-based products account for more than 20 per cent of DMECs imports of all products (excluding fuels) from African developing countries, compared with 16 per cent and 8 per cent from developing countries in Latin America and Asia, respectively. The most important category in this sector in terms of export earnings is that of non-ferrous metals, in particular for African and Latin American countries, for which imports by DMECs in 1992 amounted to $3 billion and more than $10 billion, respectively.

3. *Manufactures*

Developing countries have substantial market shares in the imports of developed market-economy countries in a number of manufactured product sectors. Table II.5 shows that in 1992 they held market shares of 20 per cent or more in eleven sectors, seven of them with shares of at

Table II.5: Developing countries shares in imports by DMECs, 1992

(Imports in billions of US dollars; shares in per cent)

Sector	Total imports	Developing countries' market shares			
		All	Africa	America	Asia
Iron and steel	66.6	11.9	0.5	4.2	6.5
Chemicals	233.2	5.5	0.5	1.8	3.0
Organic chemicals	58.0	8.7	0.3	3.2	5.1
Plastics	51.0	4.7	0.0	0.9	3.4
Inorganic chemicals	19.6	7.9	2.3	3.7	1.7
Pharmaceuticals	37.6	1.8	0.0	0.8	0.8
Other chemicals	67.0	4.6	0.8	1.2	2.5
Other semi-manufactures	220.1	14.8	1.3	2.8	10.1
Leather, dressed furskins	8.8	35.6	3.2	14.6	15.6
Rubber	22.8	11.9	0.1	1.8	9.3
Cork and wood (excl. furniture)	16.4	31.8	1.2	3.5	26.3
Paper and paperboard	54.1	2.7	0.0	1.1	1.3
Non-metallic mineral manufactures	59.2	19.6	3.9	3.5	11.8
Manufactures of metal n.e.s.	58.8	14.4	0.1	2.1	11.9
Machinery and transport equipment	950.1	13.0	0.1	3.0	9.6
Power generating machinery	35.1	6.9	0.2	2.3	4.3
Other non-electrical machinery	179.9	5.2	0.1	1.4	3.7
Office and telecom. equipment	255.4	27.9	0.1	2.7	24.7
Office machines	131.8	23.7	0.0	1.3	22.3
Telecommunications equipment	78.1	30.6	0.1	5.9	24.5
Electrical machinery and apparatus	101.9	17.9	0.2	6.5	10.9
Automotive products	291.1	4.9	0.0	3.4	1.2
Other transport equipment	86.8	8.3	0.8	2.2	4.9
Textiles	71.0	21.5	0.9	2.4	17.7
Clothing	122.5	47.9	3.6	5.8	37.8
Other consumer goods	282.8	19.4	0.2	2.7	16.2
Sanitary, plumbing, etc. fixtures	9.6	20.2	0.2	3.3	16.4
Furniture	31.6	20.3	0.1	4.2	14.9
Travel goods, handbags, etc.	9.0	35.0	0.6	2.1	32.2
Footwear	28.0	39.2	0.5	7.7	30.4
Scientific, control, instruments	45.8	8.1	0.2	2.8	5.0
Photographic apparatus etc.	31.7	15.0	0.2	1.0	13.5
Miscellaneous articles	127.1	19.0	0.1	1.7	16.9

Source: UNCTAD secretariat computations based on United Nations Statistical Office data.

least 30 per cent. The most important sectors among these, in terms of market shares and taking into account the size of the market, are textiles and clothing, office machines and telecommunications equipment, footwear and furniture.

The contribution of each sector to total non-fuel export earnings provides an indication of sectors where developing countries have current as well as potential export interest. As will be noticed in table II.6, sectors which contributed most to developing countries' export earnings[6] (2 per cent or more of total exports excluding fuels) also coincided with those sectors in which developing countries have substantial market shares. These include metal and non-metallic mineral manufactures, automotive products, electrical machinery and apparatus, other non-electrical machinery and miscellaneous manufactures. As table II.6 shows, the contribution of most of these sectors to total export earnings of developing countries rose between 1985 and 1992 - particularly for such sectors as clothing, office machines and telecommunications equipment, and electric machinery and apparatus - while that of a few, such as footwear decreased. This overall pattern is, with few exceptions, similar for all developing regions, although it reflects mainly the situation of the Asian developing region, and to a lesser extent that of Latin America. For these two regions it should be noted that, while the share of office machines and telecommunications equipment, electric machinery and apparatus, and the automotive products sectors rose in export earnings, that of sectors such as iron and steel, textiles, and footwear has declined. In the case of the Asian region, there has been a decline in contributions of the clothing, travel goods and miscellaneous manufactured products sectors to total non-fuel export earnings.

The most dynamic export sectors in world trade, in terms of average growth rates of imports by the developed economies, can be used as indicators of potential export interest to developing countries. Table II.7 provides information on growth rates in imports of DMECs, by manufacturing sector, from the world and from developing countries. Between 1985 and 1992, there were nine sectors with average growth rates in imports from developing countries of 15 per cent or more, or in which growth rates in imports from developing countries exceeded import growth from the world by at least 5 percentage points.[7] It is noteworthy that for most sectors, the average growth rates in imports from Asian developing countries is higher than for imports from the other two

Table II.6: Developing countries' sectoral contribution to total non-fuels earnings from exports to DMECs[a]

(Percentages)

Sectors	*All developing countries*		*Developing countries in*					
			Africa		*America*		*Asia*	
	1985	*1992*	*1985*	*1992*	*1985*	*1992*	*1985*	*1992*
Iron and steel	2.2	1.8	1.0	1.1	2.9	2.4	1.7	1.4
Chemicals	3.1	3.0	4.3	3.9	4.4	3.8	2.1	2.5
Organic chemicals	1.2	1.2	0.7	0.5	2.1	1.6	0.8	1.1
Plastics	0.5	0.5	0.0	0.1	0.4	0.4	0.6	0.6
Inorganic chemicals	0.6	0.4	2.3	1.5	0.8	0.7	0.1	0.1
Pharmaceuticals	0.3	0.2	0.1	0.0	0.4	0.3	0.2	0.1
Other chemicals	0.6	0.7	1.2	1.9	0.7	0.7	0.5	0.6
Other semi-manufactures	6.7	7.5	3.6	10.0	4.4	5.4	8.4	8.0
Leather, dressed furskins	0.9	0.7	0.6	0.9	1.0	1.1	0.8	0.5
Rubber	0.5	0.6	0.0	0.1	0.3	0.3	0.7	0.7
Cork and wood (excl. furniture)	1.0	1.2	0.6	0.7	0.4	0.5	1.4	1.4
Paper and paperboard	0.4	0.4	0.0	0.0	0.7	0.6	0.2	0.2
Non-metallic mineral manufactures	2.1	2.7	2.2	7.7	1.4	1.8	2.4	2.5
Manufactures of metal, n.e.s.	1.8	2.0	0.2	0.1	0.6	1.1	2.8	2.5
Machinery and transport equipment	19.6	29.1	2.4	4.8	17.3	24.8	24.1	33.8
Power generating machinery	0.6	0.6	0.4	0.2	0.4	0.7	0.8	0.6
Other non-electrical machinery	1.7	2.2	0.2	0.3	1.2	2.2	2.1	2.4
Office and telecom. equipment	10.4	17.1	0.4	1.0	5.0	6.0	15.5	23.8
Office machines	2.7	7.6	0.1	0.1	1.2	1.5	4.1	11.1
Telecommunications equipment	4.5	5.7	0.2	0.3	3.0	3.9	6.3	7.2
Electrical machinery and apparatus	3.3	4.4	0.3	1.0	3.4	5.6	3.8	4.2
Automotive products	2.4	3.3	0.2	0.2	6.3	8.7	0.4	1.3
Other transport equipment	1.3	1.6	0.9	2.0	1.1	1.6	1.5	1.4
Textiles	3.7	3.7	2.2	2.6	1.8	1.6	5.0	4.8
Clothing	11.9	14.4	5.0	17.2	2.3	5.8	18.1	17.4
Other consumer goods	12.1	12.9	1.0	2.0	4.7	6.7	17.9	16.6
Sanitary, plumbing, etc. fixtures	0.3	0.4	0.0	0.1	0.1	0.2	0.4	0.5
Furniture	1.1	1.4	0.0	0.1	0.4	1.1	1.4	1.6
Travel goods, handbags, etc.	1.0	0.8	0.1	0.2	0.1	0.2	1.6	1.1
Footwear	3.1	2.5	0.2	0.5	2.0	1.9	4.2	3.0
Scientific, etc. instruments	0.5	0.9	0.2	0.3	0.4	1.1	0.6	0.9
Photographic apparatus, etc.	1.1	1.2	0.1	0.2	0.2	0.3	1.7	1.6
Miscellaneous articles	5.1	5.7	0.4	0.6	1.5	2.0	8.1	7.9

Source: UNCTAD computations based on United Nations Statistical Office data.

a Based on imports by developed market-economy countries

Table II.7

Average growth rates in DMECs imports from world and from developing countries

(percentages)

Sectors	1980-1992					1985-1992				
	World	DCs	Africa	America	Asia	World	DCs	Africa	America	Asia
Iron and steel	2.0	8.1	3.9	8.6	10.2	5.1	6.9	6.2	4.6	10.1
Chemicals	6.6	9.9	0.7	8.4	15.6	9.9	9.7	4.9	5.2	15.5
Organic chemicals	5.9	13.6	2.2	10.4	19.5	8.1	10.2	-0.1	4.4	17.9
Plastics	6.2	17.1	10.0	23.2	16.5	9.5	11.9	15.7	7.5	13.9
Inorganic chemicals	2.1	0.9	-4.5	3.8	7.8	2.7	4.3	0.1	4.8	12.9
Pharmaceuticals	11.2	4.2	0.2	3.9	4.7	16.7	3.8	-3.4	4.1	3.6
Other chemicals	7.4	11.9	10.0	8.1	15.6	11.7	13.0	13.4	7.2	17.1
Other semi manufactures	5.3	9.7	9.9	10.1	9.8	10.0	12.0	22.4	11.0	11.6
Leather, dressed furskins	4.2	6.0	7.2	5.8	5.7	5.8	6.7	13.6	8.9	3.9
Rubber	6.5	11.7	16.2	20.2	11.5	10.7	12.2	20.3	9.4	13.2
Cork and wood (excl. furniture)	5.3	7.1	0.2	7.2	7.8	11.2	11.7	5.2	9.1	12.6
Paper and paperboard	6.8	11.2	20.7	11.0	12.5	9.9	8.1	5.8	4.3	15.2
Non-metallic mineral manufactures	3.7	10.7	11.7	10.5	10.4	10.1	15.2	27.7	12.5	13.5
Manufactures of metal, n.e.s.	5.7	11.1	11.6	15.6	10.8	10.1	11.2	5.5	17.7	10.6
Machinery and transport equipment	8.4	15.6	4.9	16.3	16.0	10.5	16.6	16.0	13.8	17.6
Power generating machinery	9.3	10.5	-1.8	18.1	9.9	12.4	9.6	-4.6	17.4	8.3
Other non electrical machinery	5.7	15.4	9.3	17.6	15.8	10.1	14.8	8.9	17.7	14.3
Office and telecom. equipment	11.7	16.2	17.5	12.4	16.7	11.9	18.3	21.4	11.4	19.2
Office machines	13.8	30.6	16.5	12.6	34.9	13.2	27.4	13.1	12.6	29.1
Telecommunications equipment	9.3	[illegible]	7.6	13.6	11.8	9.1	13.9	9.3	13.1	14.2
Electrical machinery and apparatus	9.3	15.9	11.9	17.2	16.3	12.6	14.2	19.0	16.6	13.2
Automotive products	8.5	21.7	8.1	21.6	28.5	8.8	15.9	11.6	13.1	32.5
Other transport equipment	5.9	7.2	1.6	10.1	7.9	10.6	13.2	20.5	12.8	11.9
Textiles	4.2	5.6	2.6	3.5	6.1	7.9	9.1	5.4	4.7	10.2
Clothing	9.0	10.2	15.4	17.0	9.5	12.8	11.6	22.9	23.3	10.2
Other consumer goods	8.5	10.7	10.8	13.0	10.6	12.4	11.4	16.6	13.7	11.2
		18.4	44.9	20.5	18.7	17.0	18.8	44.0	18.1	19.0

developing regions. While there are also high growth rates in imports from Africa and Latin America for some sectors, they are associated with rather low trade volumes and market shares. This is particularly true in the case of Africa. By contrast, the rapid expansion in imports from Asia occurred in sectors where Asian developing countries already had significant market shares.

While the differential growth rates in imports from developing regions may reflect current regional differences in comparative advantage, nevertheless, sectors in which Asian developing countries have been able to expand their manufactured exports to DMECs may provide some guidance as potential areas of export interest to developing countries of other regions.

D. Services of current and potential export interests to developing countries

For the large majority of developing countries, services do not yet make a net contribution to the external sector. However, for several developing countries there is a combined positive position on travel and earnings derived from nationals working abroad. In such cases, trade in services involves movement of persons across national frontiers, either as providers of services (i.e. workers' remittances) or as purchasers of services (i.e. travel). Developing countries which have experienced the fastest growth in their manufactured goods exports are those which have emerged as relatively strong in their services trade. In sum, there seems to be complementarity between the two trade flows.

Developing countries fall into three categories *vis-à-vis* services transactions. At one end of the spectrum are those, particularly the major exporters of minerals and commodities, with substantially negative positions on interest payments and trade in services. In between are those developing countries that show relatively strong positions in earnings from travel (tourism) and labour income. At the other end of the spectrum are certain Asian countries which have experienced rapid growth in exports of both manufactures and services in recent years. These countries have been able to take advantage of both the demand for goods, particularly in the developed market-economy countries, and the demand for services, especially in other developing countries.

The relative importance of commercial services transactions for developing countries is illustrated in tables II.8 and II.9. On the export side, the main sources of revenues for developing countries are travel (i.e. tourism) and other private services and income. On the import side, transport and other private services and income are the main debit items for developing countries. The pattern of trade in services holds true for all developing regions. Developing countries as a whole, as well as most developing regions, have net positive balances only on travel and labour income. The exceptions are the Middle East, which shows a negative balance on travel, and the Asian region, which is the only developing region to show a net positive position on "other private services and income". The particular importance of labour services income for selected countries from the three developing regions is illustrated in table II.10.

As regards the share of developing country services exports in world services trade, table II.9 shows that this share was largest for labour income (37.1 per cent) followed by travel (21.2 per cent). This pattern holds true for all developing regions except Latin America and the Caribbean, where the share of travel outweighs that of labour income. Nevertheless, the overall pattern demonstrates the relative importance of movement of national persons as a mode of supply for developing countries.

Table II.8: Commercial services balance of developing regions, 1992

(Billions of dollars)

Sector		World	DEVELOPING REGION				
			Total	Africa	Asia	Middle East	Latin America & Caribbean
Total	*Exports*	962.0	174.2	15.9	96.5	23.1	38.7
	Imports		206.2	23.5	99.0	43.0	40.7
	Balance		-32.0	-7.6	-2.5	-19.9	-2.0
Transport	*Exports*	252.5	49.0	4.8	27.8	7.0	9.4
	Imports		85.1	11.0	43.6	13.6	16.9
	Balance		-36.1	-6.2	-15.8	-6.6	-7.5
Travel	*Exports*	282.3	59.9	5.7	31.6	5.6	17.0
	Imports		50.7	4.3	25.6	6.4	14.4
	Balance		9.2	1.4	6.0	-0.8	2.6
Other private services & income	*Exports*	427.1	66.3	6.4	37.1	10.4	12.4
	Imports		70.1	8.2	29.7	22.8	9.4
	Balance		-3.8	-1.8	7.4	-12.4	3.0
- Labour income	*Exports*	19.4	7.2	1.5	4.5	0.4	0.8
	Imports		2.8	0.3	1.6	0.1	0.8
	Balance		4.4	1.2	2.9	0.3	0.0
- Property income	*Exports*	36.9	0.7	0.1	0.4	0.1	0.1
	Imports		2.8	0.3	1.6	0.1	0.8
	Balance		-2.1	-0.2	-1.2	0.0	-0.7

Source: International Monetary Fund, *Balance of Payments Statistics Yearbook, 1993*, Part 2

Table II.9: Share of developing regions in world commercial services exports, 1992

(Percentage)

Sector	World	DEVELOPING REGION				
		Total	Africa	Asia	Middle East	Latin America & Caribbean
Total	100	18.1	1.6	10.0	2.4	4.0
Transport	100	19.4	1.9	11.0	2.8	3.7
Travel	100	21.2	2.0	11.2	2.0	6.0
Other private services & income	100	15.5	1.5	8.7	2.4	2.9
- Labour income	100	37.1	7.7	23.2	2.1	4.1
- Property income	100	1.9	0.3	1.1	0.3	0.3

Source: International Monetary Fund, *Balance of Payments Statistics Yearbook, 1993*, Part 2

Table II.10: Labour services net earnings and merchandise exports for labour services exporting countries, 1992

(Millions of dollars)

Region/country	Labour services net earnings	Merchandise exports	Labour net earnings as per cent of merchandise exports
LATIN AMERICA			
Colombia	573	7 263	7.9
Dominican Republic	347	566	61.2
El Salvador[a]	470	588	80.0
Guatemala	211	1 284	16.4
Haiti[a]	86	163	52.9
Jamaica	173	1 053	16.5
Mexico	2 625	27 516	9.5
Paraguay[a]	42	1 117	3.8
AFRICA			
Algeria[a]	211	12 330	1.7
Egypt	5 889	3 400	173.2
Morocco	2 141	3 956	54.1
Tunisia	562	4 033	13.9
Benin	99	369	26.8
Mali	91	339	26.7
Senegal[a]	32	903	3.5
ASIA			
Bangladesh	912	2 098	43.5
Pakistan	1 565	6 877	22.8
Sri Lanka	548	2 301	23.8
Philippines	2 530	9 824	25.8
Turkey	3 008	14 891	20.2
China	844	69 568	1.2
Jordan	758	1 219	62.2

Source: International Monetary Fund, *Balance of Payments Statistics*, April 1993.

Note: Labour service balance includes labour income, migrants' transfers and workers' remittances.

[a] 1991.

Chapter III

TRADE LIBERALIZATION RESULTS OF THE URUGUAY ROUND: A PRELIMINARY ASSESSMENT

As has been shown in the preceding chapter, developed market-economy countries are not the only markets for the exports of developing countries but they are the most important. Among the DMECs, the so-called Quad countries (European Union, United States, Japan and Canada) account for more than 90 per cent of the imports of DMECs. For this reason, as well as data limitations as was explained in the Introduction, this chapter will concentrate mainly on the market access concessions of the Quad countries.

An evaluation of the results of the Uruguay Round requires not only an assessment of the outcome of the negotiations in the area of tariff and non-tariff measures, but also those related to the strengthening of disciplines affecting market access. Section A focuses on market access for goods and analyses: the tariff reductions achieved in the markets of Quad countries; the post-Uruguay Round tariff profiles in these markets in terms of tariff peaks and escalation; the impact of the results on GSP margins; the possible impact of the improvements in market access on trade flows, in particular those of the developing countries; and the outcome regarding non-tariff measures. Since quantitative restrictions and other NTMs have been particularly prevalent in the agriculture and textiles and clothing sectors, this section also looks at the specific agreements on these sectors. Section B analyses, from the perspective of developing countries, the market access implications of the agreement on services.

A. *Market access for goods*

1. *Tariff reductions*

This analysis attempts to identify areas of improved market opportunities in sectors and products of export interest to developing countries. Prior to the Uruguay Round, 70 per cent of imports from developing countries into DMECs were subject to (statutory) MFN duties, with imports in the textile sector and those in the leather and footwear sector being almost entirely subject to such duties (99 per cent and 95 per cent, respectively). Dutiable imports from developing countries represented about 30 per cent of dutiable imports from all origins. Table III.1 provides information on the MFN duty coverage of imports from developing countries into the Quad countries, where imports account for around 93 per cent of total imports from developing countries by DMECs. As will be noticed, the proportion of MFN dutiable imports of all items (excluding fuels), pre-Uruguay Round, varies from 74 per cent in the case of Canada to 88 per cent in the case of the United States. Substantial proportions of dutiable imports of products in sectors of export interest to developing countries faced high pre-Uruguay Round tariffs in excess of 10 per cent, in particular textiles and clothing, where over 75 per cent of imports in this sector faced high duties in all four markets; leather and footwear, with 99 per cent in Canada, 84 per cent in Japan, and 42 per cent in the United States; agriculture, especially in the European Union and Japan; tropical agricultural products in Japan and the European Union; tropical (non-agricultural) products in Canada; and natural-resource based products in the European Union. It would be noted that preferential rates, as under the GSP, much lower than MFN rates were applied to some products of export interests to developing countries.

As will also be noted from table III.1, the Uruguay Round results have reduced the proportion of imports into the four markets which are subject to MFN duties and to high tariffs. The proportion of non-fuel imports from developing countries that would enter MFN duty-free into the United States market more than tripled to 37 per cent, nearly doubled in the case of Japan, to stand at 48 per cent, and rose by half or more in the European Union and Canada, to stand at 36 per cent and 43 per cent, respectively. The proportion of imports facing tariffs in excess of 10 per cent is reduced at least by half in Japan and Canada. The sectors with the highest proportion of high tariffs remain, however, textiles and clothing, leather and footwear, and agriculture in all four (Quad) markets with, in addition, natural resource-based products (particularly fish and fishery products) in the European Union.

Table III.2 provides information on reductions in trade-weighted MFN tariff averages in the Quad countries. Overall, reductions in average MFN tariffs (trade-weighted) on all items (excluding fuels) imported from developing countries range from 28.3 per cent (United States) and 29.8 per cent (European Union) to 36.5 per cent (Japan) and 40.5 per cent

(Canada). It should be noted that, with some exceptions for Japan and Canada, reductions in trade-weighted MFN tariff cuts for developing countries are, in general, lower than those on imports from all sources. In fact, given the higher level of pre-Uruguay Round overall trade-weighted MFN tariffs facing imports from developing countries in the markets of the Quad countries (Japan again being the exception), this leaves post-Uruguay Round rates facing imports from developing countries higher than those facing imports from all sources. When GSP rates applicable to developing countries in the four markets are taken into account, trade-weighted tariff averages on imports from developing countries go down significantly; however, so also does the overall extent of tariff reductions on imports from developing countries. This results in post-Uruguay Round trade-weighted tariffs on imports by Canada and the United States from developing countries being higher than on imports from all sources even when the GSP is taken into account.

The overall reduction of tariff averages conceals substantial divergences with respect to specific product categories in all of the markets. Focusing on the lowest rates applicable to imports from developing countries in each market (i.e., the combination of GSP rate - where applicable - and MFN rates, otherwise), it will be noted that, in general, post-Uruguay Round trade-weighted tariff averages remain substantially higher on agricultural products (whether tropical or not), textiles and clothing, and leather and footwear - i.e. product sectors for which developing countries have substantial export interest - in comparison with the overall tariff averages of each market.

In the tropical products category, roots, rice, tobacco, nuts and fruits deviate the most in Japan and the European Union from the overall tariff averages in those markets. For other agricultural products, dairy products in all markets, and meat, cereals and fruits and vegetables in Japan and the European Union, are the most deviant cases. In natural resource-based products, the particular deviant case is that of fish and fishery products in the European Union. As for manufactures, while this sector on the whole shows the greatest improvements of all sectors, certain areas of particular export interest to developing counties remain relatively harder hit in various markets. This is particularly true not only for textiles, clothing, and leather and footwear manufactures, transport equipment, boats and ships and some miscellaneous manufactures in Canada, but also for certain electrical products and chemicals in the

Table III.1: Pre- and post-Uruguay Round MFN duty coverage of

Importing market	From all sources					
	Total (US$m.)	Duty-free		Total (US$m.)	Duty-free	
		pre-UR	post-UR		pre-UR	post-UR
Canada	4548	44	47	521	55	56
European Union	29205	48	53	12120	47	49
Japan	20978	43	44	3732	36	37
United States	15086	18	33	4489	13	20
Canada	1182	68	74	664	84	87
European Union	15305	12	50	13397	10	54
Japan	4120	39	41	2327	51	52
United States	7081	58	73	6205	62	77
Canada	1654	12	13	331	41	44
European Union	7802	35	57	4633	57	68
Japan	5352	62	78	3919	60	73
United States	8360	18	53	4146	31	71
Canada	5388	55	55	738	61	62
European Union	41321	54	58	11933	48	51
Japan	32714	35	57	13056	29	45
United States	30113	60	67	9399	44	51
Canada	4015	2	3	1655	1	1
European Union	26794	0	0	16569	0	0
Japan	10190	3	4	5334	2	2
United States	28780	0	3	20076	0	1
Canada	933	1	3	417	0	0
European Union	5088	10	11	3583	8	8
Japan	1472	10	14	1007	10	13
United States	9525	1	7	6789	1	6
Canada	86626	23	40	6450	29	54
European Union	295474	28	45	72385	50	57
Japan	110072	29	66	47828	9	44
United States	350222	11	38	109946	6	32
Canada	104607	23	38	10162	26	43
European Union	379671	24	40	106626	24	36
Japan	159399	36	62	53675	25	48
United States	413065	15	40	132937	12	37

Source: UNCTAD Trade Control Measures Information System

imports by Quad countries in 1988 *(Percentages of total imports)*

From developing countries							
duty ≥ 10.0%		*10.0%-14.9%*		*15.0%-19.9%*		*duty ≥ 20%*	
pre-UR	*post-UR*	*pre-UR*	*post-UR*	*pre-UR*	*post-UR*	*pre-UR*	*post-UR*
Agricultural products (non tropical)							
37	12	24	8	6	1	7	2
40	37	5	9	11	11	24	17
42	30	10	13	11	2	21	15
32	25	9	11	7	1	16	13
Tropical agricultural products							
7	2	5	2	2	0	0	0
42	33	9	3	3	19	31	11
36	30	2	1	3	7	31	22
5	4	2	3	3	0	0	0
Tropical products, non agricultural							
45	3	22	1	20	3	3	0
12	0	12	0	0	0	0	0
24	4	7	4	12	0	5	0
2	0	1	0	1	0	0	0
Natural resource-based products							
19	0	19	0	0	0	0	0
27	31	7	10	10	12	10	8
13	2	7	1	6	0	0	0
3	3	3	3	0	0	0	0
Textiles and clothing							
98	88	11	17	3	70	82	0
80	69	80	69	0	0	0	0
75	33	55	32	20	0	0	0
75	71	7	7	27	37	42	27
Leather and footwear							
99	78	21	14	0	63	78	1
24	24	0	0	0	24	24	0
84	28	57	2	1	1	26	25
42	41	36	35	0	0	6	6
Other industrial products							
31	3	26	2	4	1	1	0
10	5	9	5	1	0	0	0
4	3	3	2	0	0	2	2
3	2	2	1	0	1	1	0
All sectors (excluding fuels)							
45	20	23	5	4	15	18	0
33	26	22	17	3	5	8	4
22	11	12	6	5	1	5	4
18	15	5	4	5	6	8	5

Table III.2: Reduction in trade-weighted ta

Importing market	Imports from all sources		
	Value	*MFN tariff averages*	
	($millions)	*Pre-UR*	*Post-UR*
Canada	4548.1	12.5	7.8
European Union	29204.8	21.9	14.9
Japan	20978.1	41.3	31.8
United States	15086.1	6.9	5.3
Canada	1181.5	2.2	1.2
European Union	15305.0	17.8	10.5
Japan	4119.9	16.1	11.2
United States	7081.0	2.4	1.4
Canada	1654.3	10.1	5.9
European Union	7801.6	4.0	1.9
Japan	5351.9	3.8	1.6
United States	8360.5	3.4	1.9
Canada	5387.9	3.3	1.8
European Union	41320.7	4.2	3.3
Japan	32713.7	3.0	1.7
United States	30113.3	1.5	1.1
Canada	4015.1	20.8	13.9
European Union	26793.5	11.3	9.4
Japan	10190.2	11.5	7.8
United States	28779.7	17.1	14.9
Canada	932.8	17.9	12.8
European Union	5087.7	8.6	7.3
Japan	1471.9	14.8	13.0
United States	9524.7	9.7	9.1
Canada	86626.0	7.2	3.7
European Union	295474.1	4.7	2.5
Japan	110071.7	3.3	1.5
United States	350222.4	3.8	2.3
Canada	104607.4	8.0	4.4
European Union	379670.7	7.5	4.6
Japan	159399.4	9.3	6.2
United States	413064.6	5.1	3.4

Source: UNCTAD Trade Control Measures Information System

a Including duty-free imports.

b MFN or GSP rate, whichever is the lowest applicable rate to developing countries.

for imports by Quad countries in 1988 *(Percentages)*

Imports from developing countries						
Value *($millions)*	*MFN tariff averages*		*Reduction* *(%)*	*MFN/GSP*[b] *tariff averages*		*Reduction* *(%)*
	Pre UR	*Post-UR*		*Pre-UR*	*Post-UR*	
Agricultural products (non tropical)						
520.7	7.6	4.9	34.9	5.5	3.8	31.3
12119.8	23.5	16.8	28.4	22.8	16.6	27.3
3731.6	19.5	14.9	23.4	18.2	14.5	20.5
4489.0	9.1	7.0	23.5	6.0	4.9	19.2
Tropical agricultural products						
664.4	1.2	0.6	45.5	0.6	0.3	47.7
13391.4	17.4	10.0	42.6	15.2	9.4	37.9
2311.0	17.4	10.9	37.2	9.9	8.4	15.6
6200.3	2.1	1.2	41.1	1.5	0.8	42.8
Tropical products, non-agricultural						
331.0	7.2	3.6	50.1	4.7	3.5	25.5
4633.1	3.0	1.5	48.6	0.0	0.0	-
3918.5	4.5	1.9	57.1	3.0	1.5	48.7
4146.4	3.2	1.4	55.4	0.9	0.7	17.9
Natural resource-based products						
738.0	3.3	1.9	41.8	2.4	1.7	29.2
11932.8	6.0	4.8	18.9	3.4	3.2	6.7
13055.9	3.8	2.2	43.1	2.3	1.6	29.8
9398.7	2.6	2.0	22.5	0.6	0.5	13.8
Textiles and clothing						
1655.4	22.1	15.6	29.6	21.4	15.4	28.1
16569.4	11.9	10.1	14.9	0.0	0.0	-
5334.3	11.7	7.9	32.3	5.2	5.0	3.5
20076.2	18.7	16.9	9.9	18.5	16.7	9.7
Leather and footwear						
416.5	19.8	15.0	24.3	18.3	14.5	20.8
3582.8	9.1	7.8	14.7	0.2	0.1	26.9
1007.3	13.3	11.5	13.3	8.4	7.5	10.2
6789.3	9.6	9.1	5.2	9.2	8.9	2.9
Other industrial items						
6450.1	6.8	3.1	54.9	4.0	2.7	33.1
72385.2	3.5	2.0	41.7	0.3	0.2	44.6
47828.1	3.9	2.3	40.9	2.8	1.9	31.3
109945.7	3.3	1.7	48.5	1.5	0.8	42.9
All sectors (excluding fuels)						
10162.1	12.4	7.4	40.5	7.5	5.3	29.3
106626.1	9.8	6.9	29.8	5.1	3.5	30.3
53674.5	7.4	4.7	36.5	4.3	3.4	22.6
132937.1	7.6	5.5	28.3	4.7	3.8	18.8

United States, and certain chemicals in the European Union.[8]

Tariff escalation in the Quad markets is analyzed in table III.3 based on trade-weighted (by imports from developing countries) average tariffs, on products of export interest to developing countries. As the table shows, when tariffs are examined by stage of processing, progress can be noted in some or all of the markets for some products. For example, this is true for paper and paperboard in all the markets, tea in Canada and jute products in the United States. However, although the overall level of tariffs may have come down, in some cases the effective rate of protection may have gone up.

2. *Erosion of GSP margins*

An analysis of the average loss in GSP margins implied by the MFN tariff reductions in the Quad markets is given in table III.4. As will be noticed, on a trade-weighted basis using imports from developing countries of GSP-covered products, there is an overall loss in preference margins for all GSP-covered products of about 82 per cent in Canada, 61 per cent in Japan, 50 per cent in the United States, and 32 per cent in the European Union. On a sectoral basis, the highest percentage loss in preference margins occurs for tropical agricultural products in the case of the European Union (74.0 per cent), and for tropical non-agricultural products in the cases of Canada (95.6 per cent), Japan (72.9 per cent) and the United States (70.5 per cent). As should be apparent, sectors in which GSP margins were eroded the least are those in which MFN tariffs were cut the least on GSP-covered items.

3. *Estimated trade effects of tariff reductions*

The UNCTAD Trade Policy Simulation Model[9] has been used to estimate the possible trade effects of the tariff concessions by Quad countries, particularly on developing countries. Table III.5 gives estimates of the additional imports, from the world and from developing countries, for all items (excluding fuels) and selected sectors, which are possible as a result of the tariff reductions in each of the Quad markets.

Overall, imports by the four markets of non-fuel merchandise are likely to rise by $28.5 billion, which is equivalent to 4.6 per cent of the dutiable imports by these markets from the world in 1988. Imports rise in absolute terms by the largest amount in the United States ($12.4 billion), followed by European Union ($8.9 billion), Japan ($4.9 billion), and Canada ($2.2. billion). The rise in imports in proportionate terms is the largest in the case of Canada (8.8 per cent). Sectorally, the category "other industrial items" contributes overwhelmingly to the overall increase in imports in all four markets.

As regards additional imports from developing countries, table III.5 shows that overall these would amount to about $7.1 billion or 3.1 per cent of the value of dutiable imports from developing countries in 1988. The effect on imports from developing countries is estimated on a net basis taking into account trade creation (induced increases in imports from some developing countries for some product lines) and trade diversion (representing induced decreases in imports from some developing countries for some tariff lines owing, in a number of cases, to reduced preferential margins). The trade diversion effect for developing countries is greatest in the case of the European Union market.

Sectorally, additional imports from developing countries come mainly from "other industrial items" as in the overall case. Textiles and clothing constitute the other major contributing sector. However, it should be noted that the estimates for the textiles and clothing sector are limited only to tariffs and do not take into account the impact of the phase-out of the MFA on trade flows.

Regarding these quantitative estimates of the trade impact of the tariff reductions, several observations are in order. First, these estimates take into account only reductions in tariffs and do not take into account changes in NTMs which are discussed below. Secondly, these estimates are computed in 1988 dollars using 1988 trade as the base. Thus when these are converted into current dollars, the figure would undergo an upward revision. Thirdly, owing to data limitations, only the Quad countries have been covered in the present analysis. When all markets, including the markets of developing countries, are taken into account, the trade expansion effects are likely to be much larger. Fourthly, we have used a methodology based on a static, partial equilibrium framework. When dynamic effects along with the effects of "general equilibrium" aspects of economic interaction are included, the overall impact could be much larger, particularly in the longer term. These observations suggest that the estimates given above in relation to the Quad markets need to

Table III.3: Escalation by stage of processing of MFN tariffs (weighted aver on imports from DCs[a]

(Averages in per cent equivalent ad valorem)

Product	Canada			European Union			Japan			United Stat	
	Pre UR	Post UR	Reduction (%)	Pre UR	Post UR	Reduction (%)	Pre UR	Post UR	Reduction (%)	Pre UR	Post UR
Coffee											
raw	0.0	0.0		5.0	0.0	100.0	0.0	0.0		0.0	0.0
roasted, ground	0.8	0.5	37.5	15.1	7.4	51.0	n.a.	n.a.		0.0	0.0
extracts, prep	2.5	1.6	36.0	18.0	9.0	50.0	22.9	14.1	38.6	0.0	0.0
Tea											
in bulk	5.5	0.0	100.0	0.0	0.0		11.2	8.8	21.5	0.0	0.0
for retail sale	2.0	0.0	100.0	5.0	0.2	96.1	20.0	13.9	30.6	0.0	0.0
extract, prep	2.0	0.0	100.0	12.0	6.0	50.0	20.0	10.0	50.0	5.3	4.8
Cocoa											
beans	0.0	0.0		3.0	0.0	100.0	0.0	0.0		0.0	0.0
paste	0.0	0.0		15.0	9.6	36.0	10.0	5.0	50.0	0.0	0.0
butter	0.0	0.0		12.0	7.7	35.8	2.5	0.0	100.0	0.0	0.0
powder	10.0	6.4	36.0	16.0	8.0	50.0	21.5	12.9	40.0	1.1	0.4
chocolate	50.4	30.0	40.5	12.5	10.0	20.0	32.7	26.4	19.3	19.5	17.0
Spices											
unground	0.2	0.1	36.0	9.5	1.0	89.1	6.2	3.7	40.7	3.1	0.1
processed	1.1	0.7	36.0	11.7	4.3	63.0	1.9	0.1	97.6	3.6	1.4
Vegetable plaiting materials											
raw	3.0	0.0		0.0	0.0		5.8	4.9	15.5	2.2	1.8
parts, etc	8.9	5.5	39.0	4.3	2.2	47.8	5.2	3.6	30.1	7.3	3.3
basketwork, etc	11.3	7.4	34.7	6.2	3.9	36.9	11.4	7.5	34.9	7.1	3.1
Oilseeds, vegetable oils											
oilseeds	0.0	0.0		0.0	0.0		0.0	0.0	15.0	3.6	3.5
vegetable oils	12.5	8.0	36.0	17.1	12.4	27.7	8.5	4.5	47.2	1.9	0.8
Tobacco											
unmanufactured	6.9	4.5	35.3	20.4	16.3	20.0	0.0	0.0		11.2	7.7
manufactured	22.8	14.6	36.0	79.5	31.7	60.2	13.5	11.2	16.9	7.5	3.8
Manioc, roots, tubers											
fresh, dried	0.1	0.0	83.0	87.9	56.2	36.0	2.4	1.4	39.0	10.5	5.8
flour, meals	6.0	2.4	60.0	19.6	12.7	36.0	24.8	18.5	25.3	3.3	2.1
starches	6.2	5.0	18.8	100.0	64.3	36.0	589.0	500.6	15.0	0.1	0.0
Tropical fruits											
fresh, dried	0.0	0.0		9.2	5.1	44.2	16.9	13.8	18.2	6.7	5.3
preserved	0.0	0.0		23.2	18.6	20.0	41.5	25.5	38.6	3.0	2.3
prepared, juices				21.0	16.8	20.0	33.2	21.3	35.8	0.7	0.3
Tropical nuts											
unshelled, shelled	0.0	0.0	36.0	2.8	2.0	37.7	6.3	1.1	82.5	0.2	0.1
prepared	6.3	4.0	36.0	14.1	9.3	34.2	26.1	18.1	30.6	19.7	14.6

(Continued)

Table III.3: Escalation by stage of processing of MFN tariffs (weighted averages) on imports from DCs[a] *(Continued)*

(Averages in per cent equivalent ad valorem)

Product	Canada			European Union			Japan			United States		
	Pre UR	Post UR	Reduction %	Pre UR	Post UR	Reduction %	Pre UR	Post UR	Reduction %	Pre UR	Post UR	Reduction %
Tropical wood												
in the rough	0.0	0.0		0.0	0.0		0.0	0.0	30.0	0.0	0.0	
simply worked	0.0	0.0		0.1	0.0	97.0	4.8	2.8	41.6	1.3	0.0	
veneers, plywood	6.0	4.0	33.6	9.0	5.9	34.0	16.5	8.1	51.0	6.0	5.3	11.4
other articles	9.8	5.1	47.7	5.5	3.2	97.0	4.7	2.8	45.6	5.4	2.8	48.8
Rubber												
natural rubber	0.0	0.0	34.0	0.0	0.0		0.0	0.0		0.0	0.0	
simple	13.4	8.7	34.9	6.3	3.7	40.2	4.6	0.5	88.6	4.1	2.8	6.8
manufactures												
tyres	10.4	5.6	46.1	5.8	4.2	26.8	2.6	0.0	100.0	4.4	3.1	24.7
other articles	17.6	11.4	35.3	4.9	2.4	51.2	3.8	—	100.0	4.0	1.7	57.5
Jute												
raw	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0	
processed	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0	
yarns	14.6	8.8	39.5	5.3	0.0	100.0	10.0	0.0	100.0	3.7	0.0	100.0
articles	0.4	0.2	37.4	9.0	4.0	55.6	20.0	12.0	50.0	0.0	0.0	
twine, cordage	13.5	10.0	25.9	12.0	6.0	50.0	10.0	0.0	100.0	4.0	0.0	100.0
Fishery												
unprocessed	2.1	1.4	32.7	14.8	11.8	20.3	5.0	3.2	36.8	0.1	0.1	32.4
semi + processed	8.6	5.6	34.5	15.9	15.0	6.0	12.6	8.1	35.4	7.2	6.5	9.5
Forestry												
raw materials	0.1	0.1	34.3	0.0	0.0		0.2	0.0	97.5	0.0	0.0	
semi-manufactures	5.3	3.5	34.3	3.5	2.3	36.1	9.7	4.7	51.3	4.7	3.7	20.9
finished products	9.8	5.1	47.7	5.5	0.3	94.9	4.7	2.8	45.8	5.4	2.8	48.8
Hides & skins												
raw materials	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0	
leather	9.9	6.5	34.3	4.1	3.4	15.5	9.7	4.1	57.7	3.8	3.0	21.0
other articles (excl. footwear)	18.7	11.6	38.2	6.7	4.2	37.2	11.8	9.6	19.0	10.2	9.4	8.5
Paper & paperboard												
semi-manufactured	5.3	0.0	100.0	8.2	0.0	100.0	5.3	0.0	100.0	1.4	0.0	100.0
finished products	10.5	0.0	100.0	10.7	0.0	100.0	4.2	0.0	100.0	4.6	0.0	100.0
Iron & steel												
raw materials	0.0	0.0		0.0	0.0		0.0	0.0	-	0.0	0.0	
semi-manufactures	5.1	0.4	91.9	3.9	0.5	87.4	5.0	0.5	90.60	3.7	0.4	88.3
finished products	9.9	5.6	43.0	5.6	2.7	51.0	5.0	0.3	93.0	3.9	2.2	44.4

Source: UNCTAD Trade Control Measures Information System

[a] Averages were computed using 1988 weights

Table III.4: Erosion of GSP margins resulting from the Uruguay Round

(Percentages)

Item		Canada				European Union			
		Preferential margin		Margin loss	Erosion %	Preferential margin		Margin loss	Erosion %
		PRE UR	POST UR			PRE UR	POST UR		
All GSP items	simple	5.61	1.46	4.15	74.0	7.37	4.29	3.08	41.8
	weighted	5.03	0.91	4.12	81.9	8.42	5.70	2.72	32.3
Agriculture	simple	12.81	6.27	6.54	51.1	8.36	4.17	4.19	50.1
(non tropical)	weighted	19.42	10.71	8.71	44.9	6.02	1.89	4.13	68.6
Agriculture	simple	6.83	3.37	3.46	50.7	8.03	2.82	5.21	64.9
(tropical)	weighted	5.70	3.22	2.48	43.5	4.27	1.11	3.16	74.0
Tropical	simple	4.54	0.62	3.92	86.3	5.92	2.61	3.31	55.9
non agriculture	weighted	4.28	0.19	4.09	95.6	6.92	3.56	3.36	48.6
Natural resource based	simple	4.17	0.96	3.21	77.0	6.95	4.62	2.33	33.5
	weighted	3.82	0.79	3.03	79.3	8.30	5.38	2.92	35.2
Textiles	simple	7.01	1.45	5.56	79.3	10.57	8.24	2.33	22.0
	weighted	7.48	2.14	5.34	71.4	11.94	10.15	1.79	15.0
Manufactured leather	simple	6.36	3.41	2.95	46.4	9.59	8.09	1.50	15.6
and footwear	weighted	5.39	1.82	3.57	66.2	10.36	8.86	1.50	14.5
Other industrial	simple	5.29	1.24	4.05	76.6	6.39	3.11	3.28	51.3
products	weighted	4.78	0.68	4.10	85.8	7.44	4.30	3.14	42.2

Item		Japan				United States			
		Preferential margin		Margin loss	Erosion %	Preferential margin		Margin loss	Erosion %
		PRE UR	POST UR			PRE UR	POST UR		
All GSP items	simple	6.73	2.68	4.05	60.2	5.33	2.80	2.53	47.5
	weighted	6.73	2.61	4.12	61.2	4.87	2.44	2.43	49.9
Agriculture	simple	19.62	8.73	10.89	55.5	7.30	4.46	2.84	38.9
(non tropical)	weighted	15.77	5.59	10.18	64.6	7.41	5.04	2.37	32.0
Tropical	simple	7.36	2.29	5.07	68.9	8.18	4.89	3.29	40.2
agriculture	weighted	21.18	7.23	13.95	65.9	7.17	4.71	2.46	34.3
Tropical	simple	6.84	1.94	4.90	71.6	4.88	1.90	2.98	61.1
non agriculture	weighted	6.53	1.77	4.76	72.9	3.97	1.17	2.80	70.5
Natural resource base	simple	6.38	2.91	3.47	54.4	4.39	2.96	1.43	32.6
	weighted	4.25	1.58	2.67	62.8	4.25	3.19	1.06	24.9
Textiles	simple	8.10	3.99	4.11	50.7	5.82	2.28	3.54	60.8
	weighted	7.98	3.59	4.39	55.0	4.84	3.21	1.63	33.7
Manufactured leather	simple	15.18	8.75	6.43	42.4	4.33	2.48	1.85	42.7
and footwear	weighted	9.07	7.38	1.69	18.6	4.13	2.11	2.02	48.9
Other industrial	simple	5.23	1.59	3.64	69.6	5.19	2.60	2.59	49.9
products	weighted	5.70	1.97	3.73	65.4	4.85	2.27	2.58	53.2

Source: UNCTAD Trade Control Measures Information System

Table III.5: Trade effects of Uruguay Round tariff reductions

(Millions of dollars and percentages)

	World		Developing countries			
	Total effects		Total effects		Trade creation	Trade diversion
	Value	%	Value	%	Value	Value
			Agriculture non-tropical			
Canada	45.2	5.1	16.7	9.8	7.8	8.9
European Union	702.2	5.6	264.7	5.0	266.5	-1.8
Japan	705.4	5.9	63.4	2.7	74.5	-11.1
United States	157.9	1.6	34.4	1.0	41.9	-7.5
Total	1 610.7	4.6	379.2	3.4	390.7	-11.5
			Tropical agriculture			
Canada	3.1	2.1	1.2	1.9	0.9	0.3
European Union	343.5	5.0	239.2	44.0	277.8	38.7
Japan	70.6	2.8	19.3	1.7	22.2	3.0
United States	26.8	1.4	16.2	1.1	18.7	2.5
Total	444.0	3.9	275.9	3.4	319.6	-43.9
			Tropical non-agriculture			
Canada	94.4	16.7	22.1	12.2	20.1	2.0
European Union	283.5	7.7	98.7	5.2	93.9	4.8
Japan	137.1	6.8	74.0	4.7	83.7	9.7
United States	292.5	5.1	128.4	4.6	136.8	8.5
Total	807.5	6.7	323.2	5.0	334.5	11.4
			Natural resource-based products			
Canada	19.5	3.3	9.8	3.8	6.9	3.0
European Union	158.5	1.7	43.1	0.9	49.2	-6.1
Japan	387.8	1.8	53.3	0.8	107.4	-54.1
United States	78.5	0.9	28.3	0.5	32.2	-4.0
Total	642.3	1.6	134.5	0.7	195.7	-61.2
			Textiles			
Canada	358.5	14.2	218.9	15.4	210.5	[illegible]
European Union	358.7	1.7	218.3	1.4	213.2	5.1
Japan	131.4	1.33	27.8	-0.5	12.1	-39.8
United States	1 385.6	5.3	905.1	5.0	910.7	-5.6
Total	2 234.2	3.7	1 314.7	3.2	1 346.5	-31.9
			Leather and footwear			
Canada	131.9	17.0	54.7	133.7	55.3	0.6
European Union	90.6	2.3	70.9	2.2	69.4	1.5
Japan	59.9	4.5	31.6	3.5	33.7	2.2
United States	162.9	1.8	86.7	1.3	89.7	-3.0
Total	445.3	3.0	243.9	2.2	248.1	4.3
			Other industrial items			
Canada	1 550.6	6.5	334.6	8.0	284.4	50.2
European Union	7 056.8	4.8	645.1	1.8	924.8	279.8
Japan	3 689.7	5.0	791.6	1.6	950.8	159.2
United States	10 291.0	4.0	3 131.8	3.1	3 251.7	119.8
Total	22 788.1	4.6	4 903.1	2.7	5 411.7	508.6
			All items (excluding fuels)			
Canada	2 205.2	8.8	658.8	9.8	586.4	72.4
European Union	8 934.9	4.5	1 565.5	2.2	1 880.1	314.5
Japan	4 922.9	4.0	569.5	1.4	848.5	279.0
United States	12 395.3	4.3	4 330.8	3.9	4 481.6	150.8
Total	28 458.3	4.6	7 124.6	3.1	7 796.6	671.9

Source: UNCTAD Trade Control Measures Information System be considered as partial estimates of the potential trade expansion from the Uruguay Round agreements. Finally, there is yet another important issue. The analysis presented here is in aggregate terms, i.e. the estimates of trade benefits are for developing countries as a group and there is no disaggregrated analysis in terms of regions (e.g. developing countries in Africa) or in terms of categories of countries, such as the least developed countries, because of the lack of adequate data on updated estimates of relevant supply and demand elasticities and the time constraint. This limitation is of considerable importance, as the gains may be unevenly distributed among countries and among product categories, particularly in the short- and medium-term framework. These considerations indicate the further areas of work needed to be done in order to understand fully the impact of the Uruguay Round on market access and on growth in world trade. It is expected that such an analysis will be one of the priorities of the new Ad Hoc Working Group on Trading Opportunities in the New International Trading Context.

4. *Non-tariff measures*

The most significant non-tariff measures affecting access to markets are quantitative restrictions. These take various forms in different countries. In the Quad countries, in addition to quotas applied under the MFA (Japan excepted) and in the agricultural sector, these have operated mainly as grey-area measures such as export restraints arrangements, including voluntary export restraint, orderly marketing arrangements, export forecasts, basic price systems, industry-to-industry arrangements, discriminatory import systems, and prior import surveillance. For example, in the United States, such measures have covered iron and steel products, automobile and road transport equipment, machine tools, electronic products, footwear, textiles and clothing (outside the MFA) and other miscellaneous products. In the European Union such measures have also covered iron and steel products, footwear, machine tools, road motor vehicles, machinery, electrical and electronic household equipment, textiles (outside the MFA) and other miscellaneous products.

The results of the Uruguay Round did not yield a reduction of specific non-tariff measures on a tariff line basis, as in the case of tariffs. However, as was indicated earlier in chapter I, the Agreement on Safeguards prohibits grey-area measures. In addition, as also indicated earlier, the Agreement on Agriculture, which provides for the tariffication of NTMs in the agricultural sector, and the agreement on textiles and clothing, which calls for the phase-out of the MFA, will embody major action on NTMs in these sectors. Other Uruguay Round agreements, such as on technical barriers to trade and on import licensing, should also contribute to greater transparency and the eventual phase-out of NTMs.

5. *Implications of specific sectoral commitments*

Agriculture

As was mentioned in the overview (chapter I), the agreement on agriculture involves commitments on "tariffication" (the replacement in effect of existing NTMs by tariff quotas) and on reductions, by specified percentages, from notified base levels in order to reduce agricultural tariffs and tariff equivalents (after tariffication), domestic support to the agricultural sector (based on an aggregate measure of support - AMS), and export agricultural subsidies (in terms of both budgetary outlays and quantities subsidized).

A review of the schedules of Quad countries to implement these commitments indicates the following:

(i) Tariff quotas

In Canada tariff quotas will apply to meat, dairy, and wheat and barley products. Except for wheat and barley products, there is no, or only a small, difference between initial and final quota quantities. The quotas for milk products and butter are bilateral ones.

European Union tariff quotas apply to meat, dairy, sugar, roots, citrus fruits, bananas, maize and wheat products and are broken down into current access quotas (for which there are no differences between initial and final quota quantities), and minimum access quotas (for which in many cases there is a substantial increase in final, in comparison with initial, quotas). Except for maize, minimum access quotas are all global ones. Current access quotas for bovine meat, lamb, dairy products and sugar are bilateral ones.

In Japan, tariff quotas cover dairy products wheat, barley, rice, groundnut, tubers of Konnyaku and silk worms. There is a substantial increase between initial and final quotas for some dairy products (whey), rice, groundnuts and a modest increase for wheat and barley. All quotas are global.

In the United States, tariff quotas cover meat, dairy products, cocoa powder, chocolate, and cotton. All quotas are final. Meat, cheese, chocolate and cotton quotas are for the most part bilateral ones.

(ii) Domestic support

The schedule of reductions in total AMS for Quad countries between 1995 and 2000 is shown in table III.6. Total base-level AMS for the four countries is $143.2 billion. This total will be reduced to $117.1 by the year 2000.

(iii) Export subsidies

The schedule of reductions in budget outlays and quantities subsidized has also been indicated for the Quad countries. In all markets, budgetary outlays and quantities will not be reduced from base levels to zero by the year 2000. It is to be noted that in a number of cases budgetary outlays and quantities subsidized are scheduled to rise initially and to begin to fall below base levels only in 1997.

Table III.6: Agricultural domestic support: Total AMS reduction commitments by Quad countries

(Billions of dollars)

	Canada	EU	Japan	USA	Total Quad
Base total AMS	4.1	81.4	33.8	23.9	143.2
1995	3.9	79.1	32.6	23.1	138.7
1996	3.8	76.8	31.5	22.3	134.4
1997	3.7	74.5	30.4	21.5	130.1
1998	3.5	72.3	29.3	20.7	125.8
1999	3.4	70.0	28.1	19.9	121.4
2000	3.3	67.7	27.0	19.1	117.1

Source: Part IV of Schedules of Concessions annexed to the Marrakesh Protocol.

As a preliminary conclusion, in the absence of quantitative estimates based on econometric simulations, this review suggests that, aside from a few cases, the reductions to be carried out by Quad countries are unlikely to entail big increases in market access opportunities for the agricultural products concerned in the immediate future.

Textiles and clothing

As indicated earlier, the Agreement on Textiles and Clothing provides for the phase-out of MFA restrictions over a 10-year transitional period from 1 January 1995 according to a four-stage integration process. As a first step, upon the entry into force of the WTO Agreement, targeted for 1 January 1995, each member would integrate into GATT 1994 not less than 16 per cent of its total 1990 volume of imports of the products specified in the annex to the Agreement. The remaining products would be integrated into the GATT in three stages, with 17 per cent on 1 January 1998, 18 per cent on 1 January 2002, and 49 per cent on 1 January 2005. The existing annual growth rates for the respective restrictions in the bilateral agreements under the MFA would be increased at the beginning of each of the first three stages, by 16 per cent, 25 per cent and 27 per cent, respectively. For suppliers whose market share is small (1.2 per cent or less), the increases of annual growth rates will be advanced by one stage.

The increases of growth rates should be considered as an improvement in comparison with the MFA. Particularly, it could mean big quota increases for those countries which currently enjoy relatively higher growth rates, generally medium and small exporters. The small suppliers will also enjoy specific improvement in access (e.g. in respect of base levels, growth and flexibility provisions) under the Agreement in the case of products exported by them which are subject to restrictions which only represent 1.2 per cent or less of the total volume of the restrictions applied by an importing member. The Agreement also includes special provisions for least developed countries, non-MFA members, cotton producers, wool producers and the outward processing trade, but without any specific threshold.

However, since each importing member will select the products for integration into the GATT unilaterally, it is very difficult to anticipate which of the MFA restrictions will be phased out in the early stages. As the annex to the Agreement contains many tariff lines which are not specifically restricted under the MFA, the restricting countries can use this inflated volume to avoid integrating actually restricted product areas at the earlier stages. Therefore, many exporting developing countries, would not expect to benefit from meaningful trade liberalization in this sector in the immediate future.

Although the existing MFA restrictions will be phased out gradually, new quantitative restrictions can also be imposed by the importing countries, under the special transitional safeguard provisions of the Agreement during the 10-year transitional period, to products covered by the Annex to the Agreement (other than specific handloom products, historically traded textiles products and pure silk products). Measures applied under the transitional safeguard provisions, like the MFA, can continue to be selective "on a member-by-member basis". The criteria and procedures for such actions have retained most of the elements of the so-called "market disruption" provision (Annex A) and Article 3 of the MFA. Furthermore, the MFA-type quantitative restrictions now can also be applied to non-MFA members under the transitional safeguard provisions of the Agreement.

Owing to the fact that all the MFA and non-MFA restrictions maintained by the members will be notified to the Textiles Monitoring Body only after the entry into force of the WTO Agreement, and that details on the products covered by the first-phase[10] of the integration process of the textile sector to GATT 1994 would only be known by 1 October 1994, it is difficult to assess the benefits for developing countries from this transitional agreement. Such assessment can only be made once the information with respect to the scope of the current restrictions and the products which will be integrated at the first stage is available.

B. Market access for services

The objective of the negotiations on trade in services as stipulated in the Punta del Este Declaration and the Preamble to the GATS, is to establish a multilateral framework of principles and rules for trade in services with a view to the expansion of such trade under conditions of transparency and progressive liberalization and as a means of promoting the economic growth of all trading partners and the development of developing countries. The Agreement establishes a mechanism for the progressive removal of restrictions and liberalization of sectors.

By 15 December 1993, some 94 countries had submitted their schedules of specific commitments. Most of the offers were accompanied by MFN exemption lists. The offers varied widely in sectoral coverage, extent of limitations to market access and national treatment and modes of supply coverage. The degree of development of the services sector is reflected in the coverage of the sectors offered. Whereas some of the least developed countries have offered only one sector, many developing and developed countries have put forth offers covering most sectors.

The impact of specific commitments on market access and national treatment will be a function of the extent to which: (i) services sectors and subsectors have been included in individual schedules; (ii) all modes of supply are bound; (iii) market access and national treatment in the transactions listed are limited or qualified; (iv) economic needs test requirements are included without specifying objective criteria; and (v) they constitute exemptions to the MFN. The assessment of the impact of the commitments has to be done in the context of the existing domestic regulatory framework, taking into account whether the country concerned has introduced legislative changes to implement the commitments it has undertaken. A meaningful assessment would also require appropriate disaggregated statistical data on services trade flows through all modes of supply, cross-country cost comparisons indicating which countries have comparative advantage, and a study of the impact of the barriers to entry. What the impact of substantive liberalization in services on developing countries could be also remains uncertain, as little or no meaningful quantitative work has been done in the services area which would provide a basis for such evaluation. Given that disaggregated statistical data is not available, and negotiations have not been concluded on major sectors and mode of supply, objective criteria to weigh offers is lacking. Thus only a very general and qualitative analysis of specific commitments can be done at this stage.

Most offers of both developed and developing countries provide a standstill on a wide range of sectors, although such a standstill often incorporates important qualifications and limitations, such as on the category of persons that may supply services, their nationality and residency requirements, limited equity participation, exclusion of acquisitions, etc. The extent to which the commitments actually provide a rollback of restrictions can only be determined by an analysis of the legislative changes introduced by members to implement their concessions. However, even the consolidation of the status quo through the application of the MFN clause and the specific market access and national treatment commitments made in specific sectors and subsectors by guaranteeing security of access will expand trade and investment in services. Given the fact that the developing countries have a weaker services sector, their offer includes a more limited number of sectors than that of the developed countries examined. It should be noted that the developed countries have excluded some important services sectors, for example audiovisual (e.g. EU), maritime services (e.g. United States), specific subsectors in financial services and business services (e.g. Japan).

The mode of supply most frequently included in the Schedules of Commitments is commercial presence and movement of consumers. The mode of supply through cross-border trade has been left unbound in many offers for lack of feasibility or because commercial presence is preferred, e.g. European Union in some business services subsectors. The mode of supply of movement of natural persons has been offered in all schedules through "horizontal" concessions in the limited category of intracorporate transferee (i.e. managers, specialists, executives) and business visitors, which is linked to commercial presence, but without sectoral specificity. Few countries have offered access to additional categories of natural persons.[11] In many cases, these bindings only cover a small proportion of the various visa categories for temporary entry.[12] Movement of persons in categories other than that of managers, specialists and executives is unbound, despite the fact that the developing countries have repeatedly included this mode of delivery in their requests. Such offers could provide some advantages to few developing countries' firms, but obviously would be of greater benefit to other developed countries. These offers, in their present form, do not provide any security of access for developing countries' service suppliers, regardless of their skills, to be recruited for special assignments, and the absence of any sectoral or occupational category indication renders it difficult to evaluate the value of the offers to the developing countries or design a serious export capacity. It should be noted that in the area of access to distribution channels and information networks, the offers of some developed countries (e.g. United States, Canada, Switzerland) omit access to computer reservation systems.

The emphasis of most offers put forward by the developed countries is on the commercial presence mode of supply and movement of persons in the form of intracorporate transferee. Most developing countries are not in a position to benefit from the commercial presence mode of delivery, given the high cost of establishment in developed countries and the weaknesses of the developing countries' firms in terms of financial and human capital and access to distribution networks and information channels and technology.

While sectors which are of particular interest to developing countries and which require the movement of persons other than specialists, executives and managers such as tourism-related services, construction and engineering, business services, health-related services, and maritime transport, are included in the offers of developed countries, however, only top-level management personnel are allowed to move to provide such services.

Negotiations are continuing on the specific commitments in major sectors such as financial services, maritime services, and basic telecommunication services as well as on the mode of supply of movement of natural persons, which is of particular interest to developing countries. Once the negotiations on these major sectors, the movement of natural persons and exemptions to the MFN are concluded, the market access results of the negotiations on trade in services would become clear and amenable to more precise evaluation.

Chapter IV

EXPANDING THE EXPORT SUPPLY CAPABILITIES OF DEVELOPING COUNTRIES: URUGUAY ROUND AGREEMENTS AND NATIONAL POLICY OPTIONS

In addition to the trade liberalization, the outcome of the Uruguay Round also comprises new rules and disciplines on national policy action in a number of areas. This chapter, in a preliminary manner, examines the implications of these new rules from the perspective of the scope for government policy actions in developing countries to foster export-oriented growth and industrial development. This issue is directly relevant to two key elements in the work programme of the Ad Hoc Working Group; namely, the Group's consideration of various national experiences in order (a) to identify national measures, incentives or policies for enhancing the competitiveness of sectors and industries with an export potential, and (b) to identify effective national export promotional and marketing activities.

One of the principal tasks of the Ad Hoc Working Group has been, on the basis of an extensive exchange of national experiences, to identify successful national measures, incentives and policies which have proved to be effective and which could be adopted by developing countries for enhancing the competitiveness of sectors and industries with an export potential. The issue is whether and to what extent the Uruguay Round agreements place constraints on the use of certain policy instruments. More generally, do the Uruguay Round agreements introduce new constraints on the formulation and execution of trade and development policies by developing countries, particularly those related to an export-oriented industrialization strategy? Section A below provides a brief overview of developing countries in relation to GATT rules prior to the Uruguay Round. Against this background, section B discusses the implications of Uruguay Round agreements for developing countries' policy options and policy effectiveness.

A. GATT and developing countries prior to the Uruguay Round

Since its inception, a number of modifications to the General Agreement on Tariffs and Trade (GATT) have given effect to special and differential treatment (S and D) for developing countries. S and D has been affirmed on two separate grounds for developmental reasons - the need to nurture and protect the development of industries in developing countries (including the balance-of-payments) and the need for preferential market access.

Some articles in the original GATT affirmed S and D, in particular Article XVIII. Section B of that Article provided developing countries with the flexibility of imposing trade measures to protect the balance of payments (as does Article XII). The conditions attached to section C of the Article provided developing countries with flexibility for taking trade measures to protect infant industries. These provisions, which do not extend to industrialized countries, have provided developing countries with significant flexibility *vis-à-vis* general GATT obligations. As noted above, S and D treatment also manifests itself in a "need for access" form. Part IV of the GATT, which was added in 1965, makes an explicit commitment to the goal of preferential access (Article XXXVI) for developing countries, as well as formally waiving the reciprocity obligation. Preferential access was subsequently given effect through the various GSP schemes which came into force after 1971. These schemes were subsequently given a full legal basis by the Tokyo Round Framework Agreement.

Developing countries have played an active role in the Uruguay Round and contributed substantially to its successful outcome. A major contribution of developing countries to the results of the Uruguay Round has been the very significant reduction in the flexibility available to their Governments in their use of trade policy instruments. In addition, the outcome of the tariff negotiations has been a extensive binding of tariff rates by many developing countries, including those which had been contracting parties for many decades. This has served to consolidate both the tariff reductions undertaken by developing countries as part of their autonomous trade liberalization measures under their economic reform programmes as well as the "entry fee" paid by those countries that acceded to the GATT during the Uruguay Round. Furthermore, the incorporation of the revised Tokyo Round Codes (which had previously been accepted by a limited number of developing countries) into the Final Act of the Uruguay Round has resulted in a major increase in the level of multilateral obligations for most developing countries, notwithstanding the mitigating effect of the provisions included on differential and more favourable treatment. While the balance-of-payments provisions of GATT Article XVIII have not been substantially modified by the Understanding on this Article, many developing countries had ceased to invoke section B thereof during the period of the negotiations. Similarly, the TRIMs Agreement, while not introducing new obligations, makes it clear that certain practices, notably local content and trade balancing requirements, are inconsistent with GATT unless covered by the balance-of-payments exceptions.

B. Implications of the Uruguay Round agreements for the trade and development policy options of developing countries

1. Constraints on policy options

The recent experience of some East Asian economies which have achieved success in rapidly expanding their exports, as well as the earlier experiences of some developed countries, reveal that successful export-oriented growth is due to a combination of macroeconomic policies (including exchange rate policies) and micro economic policies (including trade and investment policies). In addition to sound macroeconomic policies, successful countries have used a number of selective policies and measures to influence the direction and level of investment, to increase profitability of exports, to provide incentives for accumulating technological capabilities, to promote technology transfer to domestic enterprises and to reduce risks of exporting firms. In this context, these countries have deployed a variety of policy instruments, including production subsidy, export subsidy, investment-related measures such as export obligation, domestic content requirements, technology transfer clauses, risk-sharing insurance and export finance schemes. The Uruguay Round agreements will have implications for the possible use of all or some of these instruments. This section examines, in a preliminary manner, the implications of Uruguay Round agreements on options available to developing countries in the use of policy measures aimed at improving supply capabilities.

The agreements which have the most direct bearing on developing countries' policy options are those relating to subsidies, TRIMs, TRIPs, agriculture, and services. Since the rules applicable to agriculture are distinct, it is useful to discuss the policy options in the agricultural sector separately from those in the industrial and services sectors.

(a) Agricultural policy

In view of the commitments undertaken in the Agreement on Agriculture, as described earlier in chapter I, developing countries will face a changed set of policy options in the post-Uruguay Round setting. This changed policy set applies to all developing countries including the least developed. The main differences between the two groups is that the least developed countries are not expected to reduce support levels to the agricultural sector but they are expected to embrace the new policy disciplines. Other developing countries have to reduce support but, under the Special and Differential Treatment clause, they may cut support by less than the developed countries and spread out their reductions over more years.

The Agreement on Agriculture restricts the use of certain policies which, according to given criteria, "distort" agricultural production or trade. This includes many of the policies employed in the developing countries, such as minimum guaranteed prices, procurement prices and price stabilization schemes, although some exemptions are made for food security purposes. In cases where administered prices are above world prices, countries may keep administered prices, but the total amount spent on these and similar policies must not exceed the 1986-1988 level in the case of the least developed countries and must be reduced by other developing countries. As the commitment on domestic support is expressed in terms of an Aggregate Measure of Support there is flexibility for countries in deciding where to make cuts. This flexibility in price policy should be of considerable use to developing countries in deciding which commodities are to be given priority in the provision of support. Input subsidies, provided they are widely available to farmers in developing countries, are acceptable as far as the Agreement is concerned.

Under the Agreement, acceptable policies ("Green Box" policies) are defined as those interventions which imply either no or minimal "distortions" for domestic production or international trade. To be eligible for inclusion in this category, policies must be government-funded and entail neither (a) transfers from consumers to producers through, for example, management of the price structure, nor (b) direct price support. The list of such policies is given in annex 2 to the Agreement; while the list of exemptions is long, many of these involve expenditures by

Governments which many developing countries may not be in a position to afford. A review of selected agricultural policy instruments in reference to their compliance with Uruguay Round agreements is given in table IV.1. Policies indicated as "good" are those included in the "Green Box". In conclusion, the challenge for many developing countries will be to develop low-cost, decoupled methods of support which nonetheless give the necessary boost to agricultural productivity and production their developmental situation requires.

(b) Policies for industrial expansion and exports

The general expansion of multilateral disciplines into areas traditionally viewed as pertaining to domestic policy has also had an impact on the scope of developing countries' options with respect to policy measures aimed at increasing the competitiveness of their exports or achieving other developmental goals in the industrial sector.

The new disciplines on subsidies, contained in the *Agreement on Subsidies and Countervailing Measures*, although providing some differential and more favourable treatment, introduces limitations on domestic and export subsidies where none existed previously (except for the limited number of developing countries which had subscribed to the Tokyo Round Code). As defined by the Agreement, a subsidy means any benefit conferred through a financial contribution by a Government, or government revenue forgone, or government provision of goods and services or purchases of goods, or by any form of income or price support. It divides subsidies into three categories: (a) prohibited (which refers to subsidies contingent upon export performance, or upon the use of domestic over imported goods); (b) permitted (where subsidy is not "specific", or access is not limited to certain enterprises, or research subsidies, subsidies to disadvantaged regions within a country, or subsidies to adapt existing facilities to new environmental requirements); and (c) actionable (i.e. subject to remedial action if the subsidies cause adverse effects on the interests of other members by displacing or impeding imports into the national market or displacing exports to third-country markets, by resulting in significant price undercutting, or by permitting an increase in the world market share of a primary product or commodity.

The new disciplines on subsidies could potentially be a major constraint on a wide menu of policy choices which some countries in the past have used to good effect. However, there are some qualifications. The Agreement explicitly exempts least developed countries and developing countries with a per capita GDP of less than $1,000 from the prohibition on export subsidies. However, it would exclude all of those countries classified by the World Bank as lower middle- income, where significant industrialization has not occurred (e.g. Congo, Paraguay, Jordan, Jamaica), as well as many classified as upper middle-income, where GDP per capita is distorted by having a petroleum sector (e.g. Gabon and Saudi Arabia).

For reasons that are well known, GDP per capita is an imperfect indicator of economic development and any boundary thereby set is necessarily arbitrary. While a criteria of $1,000 includes all the least developed and more, it is also likely to exclude countries where export incentives could continue to play a useful role. A more satisfactory basis would have been to use $1,000 as a trigger for a time constraint on the continued use of the instruments in question and/or to have had a supplementary criterion relating to exports of manufactures.

The *TRIPs Agreement* requires major policy changes by many developing countries, and not only with respect to their policies on transfer of technology and development of indigenous capacities. Under the Agreement, members are obliged to apply the principles of MFN and national treatment with regard to the protection of intellectual property. They are also obliged to accept obligations with respect to: (a) copyright and related rights; (b) trademarks; (c) geographical indications; (d) industrial designs; (e) patents; (f) layout designs of integrated circuits; and (g) protection of undisclosed information. Most of these provisions refer to instruments administered by the World Intellectual Property Organization (WIPO) and often contain cross-references to such instruments, specifically the Paris, Rome and Berne Conventions and the Treaty on Intellectual Property in Respect of Integrated Circuits. Nothing in the TRIPs Agreement may derogate from those conventions, and certain exceptions provided in those conventions must apply to the TRIPs Agreement. Members must comply with the main operational provisions of the Paris and Berne Conventions. However, the TRIPs Agreement will apply to all members of the WTO; the above-mentioned conventions have lesser participation. In many cases, the TRIPs Agreement goes beyond the conventions cited, resolving lengthy debates in WIPO and UNCTAD. The most notable are (a) the granting of copyright protection to computer software, (b) the reinforcement of the protection of data banks and phonogram producers, (c) the requirement that patents must be available for any inventions, whether products or processes, in all fields of technology, (d) the reversal of the burden of proof (i.e. devolving on the accused patent infringer) in civil litigation procedures. Members are required to make available in their national laws the detailed enforcement provisions of the Agreement. Members are permitted to adopt appropriate measures to prevent or control anti-competitive licensing practices or conditions which constitute an abuse of intellectual property rights having adverse effects on competition. They may also, under defined conditions, retain compulsory licensing systems.

The TRIPs Agreement could have a significant impact on trade and development strategies. From a legal standpoint, the intellectual property rights (IPR) issue is quite straightforward - if ownership exists, it should be protected. The economics of IPR is far less straightforward. Reverse engineering is a tried and trusted mechanism of technology transfer that has been crucial in the industrial development of many countries. In this respect, the absence of a strict IPR protection obligation on the part of developing countries contributes to their industrialization efforts. On the other hand, institutional devices for the protection of IPR exist in order to provide an incentive to the creators of intellectual property. One would anticipate therefore that, in due course, an IPR requirement will assist in building the preconditions for transfer of technology and FDI, and ultimately for rapid growth. The obligation does not fall on developing countries in general until a lapse of five years and for the least developed countries 11 years.

The *TRIMs Agreement* is concentrated on the GATT compatibility of measures which link investment to trade in goods. While not introducing new obligations, it has clearly prohibited certain measures that were frequently used by developing countries as a means to induce foreign-controlled corporations to export, or to make adequate use of domestic materials. For example, it prohibits measures which are inconsistent with the obligations of GATT on national treatment on internal taxation and regulation (Article III) and on the general elimination of quantitative restrictions (Article XI), including local content requirements and trade balancing requirements.

In time the TRIMs agreement will remove a degree of freedom from policy-makers in developing countries. While some might argue that this may not matter, on the grounds that, in general, these are costly instruments of intervention, in political economy terms, however, it may matter. The most convincing explanation for the existence of TRIMs is that they are systematically used by developing countries to redistribute rents from transnational corporations and to counter the use of restrictive business practices of TNCs. As yet, the GATT has not addressed the question of competition policy. Until it does so, constraining the use of TRIMs by developing countries certainly alters their bargaining positions *vis-à-vis* multinational investors; this could have adverse impacts on the trade and development strategies of developing countries.

(c) Services

Another area involving potential constraints on developing countries' policy options is that of services. While developing countries have made commitments in their *GATS Schedules* which restrict flexibility, particularly in dealings with foreign corporations, these apply only to those sectors or sub-sectors where individual developing countries have chosen to accept such commitments. On the other hand, the GATS specifically permits developing countries to negotiate specific commitments from foreign firms seeking to benefit from such access relating to the strengthening of efficiency and competitiveness of their domestic services, including through access to technology and improvement in access to distribution channels and information networks.

In sum, the following conclusions may be drawn: the rule-making Uruguay Round agreements will constrain the use of the menu of policy instruments available to developing countries, but they will impact differentially on different groups of developing countries. Differential and more favourable treatment for developing countries has largely been limited to longer periods for implementing obligations, although in some areas (e.g. agriculture, subsidies and countervailing measures and safeguards) the respective agreements provide for more favourable thresholds for undertaking certain commitments or for access to markets in certain situations. The preservation of the special and differential principle, albeit in a more targeted form, will allow some developing countries full unconstrained access to the policy instruments that were available to successful export-oriented developing countries in the past, at least up to some critical level of development.

2. *The post-Uruguay Round policy environment and policy effectiveness*

Having access to policy instruments that have been successful in promoting export-oriented growth and industrial development in the past is only part of the story. For the export-oriented strategy and policy instruments to "work", there needs to be secure access to markets for the policies to be effective.

Developing countries, as weaker trading partners, have a strong interest in clear and well-defined international trading rules and disciplines to provide them with security of access to markets for their exports and to shield them from bilateral pressure, as well as unilateral and arbitrary actions from the major trading powers. With the successful conclusion of the Uruguay Round, it is widely believed that this objective has been achieved and the existing multilateral rules and disciplines have been strengthened and reinforced. This is particularly true in critical areas such as safeguards, anti-dumping actions, subsidies and countervailing measures, and in specific sectors such as textiles, clothing and agriculture.

These clarified and improved rules and disciplines would certainly increase security and predictability of market access for developing countries. Some of them even would provide new trading opportunities as a result of the specific commitments with respect to the built-in liberalization measures aimed at improving market access conditions contained therein.

Safeguards have been one of the most critical and long-standing problems bearing on the effective functioning of GATT Article XIX for over 40 years and have led to the ever-increasing incidence of selective trade-restrictive measures being taken outside of the legal framework of the GATT (i.e. the so-called "grey area" measures) by stronger trading partners, particularly against developing country suppliers. Therefore, it was perceived that the international consensus on an effective and efficient multilateral safeguard system for the application of GATT Article XIX held paramount importance in the Round.

As a key to the resolution of the problem, the Agreement on Safeguards clarified and reinforced the disciplines for the application of safeguard measures by: (a) reaffirming that such measures must be applied to "a product being imported irrespective of its source", in other words, on an MFN basis; (b) establishing clear investigatory procedures for the application of such measures, which include reasonable public notice, public hearings and other appropriate means for importers, exporters and other interested parties to present evidence and their views, as well as for notification and consultation; (c) defining more precisely the criterion of serious injury; (d) providing for time limits on the use of such measures (four years, with a possible extension to eight years for developed countries and to 10 years for developing countries); (e) permitting a waiver on the compensation requirement for the first three years; (f) prohibiting any new "grey area" measures and phasing out all the existing ones within a period not exceeding four years, with the exception that each importing member can maintain one specific measure up to 31 December 1999; and (g) establishing a Committee on Safeguards to monitor and review the operation of the Agreement.

No doubt all these improvements will bring increased security and predictability to the international trading community as a whole, including developing countries. The increased transparency in procedures and the clearly defined provisions with respect to the duration of the safeguard measures can effectively prevent arbitrary and unilateral actions by stronger partners against weaker ones and can significantly reduce the possibilities of the permanent nature of these measures. This is of particular importance to the developing countries in terms of their access to the major markets.

It also provides that a safeguard measure must not apply against a product originating in a developing country if the share of imports of the product concerned in the importing developed country does not exceed 3 per cent, provided that developing countries with less than 3 per cent import share collectively account for not more than 9 per cent of total imports of the product concerned. This threshold can enhance predictability, and may create the possibility of certain new market opportunities for some developing countries which are small suppliers and new entrants.

During the past three decades, there has been a growing use of "grey area" measures by the stronger trading partners against developing country exports through various ways and means outside the GATT rules. Such proliferation of the so-called "grey area" measures distorted the growing competitive position of developing countries and affected their interests in international trade. The detailed provisions contained in the Safeguards Agreement will ensure proper use by members in initiating new safeguard measures and require that all the existing "grey area" measures be brought under its control. This will increase security of market access for developing countries.

However, the Safeguards Agreement has not effectively brought all sectors of interest to developing countries under its auspices. The sector of textiles and clothing will continue to be subject to a separate regime with a built-in transitional mechanism for another 10 years before it could be brought into the GATT. The agriculture sector will also be subject to a different regime for liberalization, which provides for special safeguard actions in the form of additional duties calculated on the basis of trigger volume and trigger prices.

Another area of concern is the so-called "quota modulation" which could lead to certain selective or discriminatory measures being taken against exports of the weaker members in certain circumstances, as the Agreement provides for the possibility for quotas being negotiated by an importing country with the supplying countries as well as deviations from the strict MFN treatment in cases where there is a disproportionate increase of imports from one supplying country.

Like the Tokyo Round Code, the new *Agreement on Anti-Dumping* envisages that developed countries give consideration to the special situation of developing countries when considering the application of anti-dumping measures. Possibilities of constructive remedies provided for by the Code will be explored before applying anti-dumping duties where they would affect the essential interests of developing countries. However, such general provisions could not discipline the use of anti-dumping measures against developing countries after the implementation of the Tokyo Round Code, while these measures continue to be seen as the politically most convenient form of "trade remedy". The potential for proliferation of these measures has been increasing in the 1990s.

On the other hand, the new Agreement contains more detailed procedures concerning "Determination of Dumping" and "Determination of Injury", which could be considered generally as a positive outcome for countries which are subject to anti-dumping investigations. In particular, new specifications are aimed at making determination of dumping less arbitrary for exporters (e.g. determination of dumping in the case of low volume of sales in the domestic market of the exporting country; comparisons between export price and normal value, etc.). New provisions concerning examination of factors other than dumped imports, so as to demonstrate causality between dumping and injury to domestic industry, and more precise factors pertaining to a determination of a threat of material injury could be also considered as improvements to the Tokyo Round Code.

Another important new provision is the requirement of "immediate termination" of investigation in cases where the margin of dumping is "de minimis" or the volume of dumped imports, actual or potential, or the injury is negligible. The de minimis margin is determined as being less than 2 per cent expressed as a percentage of the export price, while the volume of dumped imports to be regarded as negligible is set at less than 3 per cent of imports of the like product in the importing country unless countries which individually account for less than 3 per cent of imports of the like product in the importing country collectively account for more than 7 per cent of imports of the like product in the importing country. The Code also defines a maximum period of 18 months for conclusion of investigations.

It also specifies a "sunset clause", i.e. any definitive anti-dumping duty should be terminated not later than five years from its imposition (or from the date of the most recent review), unless the authorities in a new review initiated before that date determine otherwise. This provision is also applied to price undertakings.

Another rule-making result of the Uruguay Round is the establishment of a new integrated *dispute settlement system* providing greater automaticity in decisions and procedures and linking together rights and obligations of the WTO members.

All new agreements will operate in a single legal framework under the WTO, which would have the effect of: (a) establishing roughly the same set of obligations for all WTO members; and (b) linking all such rights and obligations to trade concessions, i.e. there could be cross-retaliation under the Dispute Settlement Understanding (for example, this can imply, under certain conditions, withdrawal of tariff concessions in cases of infraction of the TRIPs Agreement).

Another main result would be much greater transparency in trade and economic policies of the WTO members through provisions for more detailed notification of trade measures, and the establishment of the Trade Policy Review Mechanism (TPRM) on a permanent basis.

In conclusion, in order to generate new trade opportunities, these agreements should be faithfully implemented by the WTO members, particularly by adopting necessary modifications in national legislation. In this context, a determining factor would be the extent to which the major trading entities actually respect their obligations in the sense of not abusing the flexibility built into various agreements, and in renouncing action seeking to obtain concessions through bilateral pressures entailing the threat of punitive action rather than through the offering of reciprocal benefits. The respective changes sought in domestic trade laws to accommodate the provisions of the Uruguay Round agreements would serve as an important indication of their eventual impact on world trade. Likewise, practical experience in the implementation of the new dispute settlement system would demonstrate whether it is capable of reducing unilateral action to resolve trade problems among WTO members.

Table IV.1: Review of some agricultural policy options for developing countries under the Uruguay Round Agreement on Agriculture

Policy	Compliance with the Uruguay Round Agreement	Comments
Domestic support measures		
Output Price Support	Poor. Subject to limitations, outside of which distorts prices and increases AMS	There may be a case for price stabilisation involving limited support in some developing countries
Input subsidies	Moderate: May be used under certain conditions. Otherwise contributes to AMS and price distortion	Offers a degree of targeting: marginally preferred to output price support
Credit subsidy	Moderate/good: less distorting effect, possibility of exemption	More favoured form of intervention, and potentially easy to target
Food security stocks	Moderate/good: purchases and sales can be at administered prices, but subsidy to producers must be included in AMS. Such stocks must be integral part of national food security programme	Process of stock accumulation and disposal needs to be financially transparent
Subsidized food distribution	Good: eligibility to receive food and/or money to buy food at market or subsidized prices subject to clearly defined criteria. Subsidization of prices on a regular basis also permitted	Food purchases by Government to support subsidized programmes must be at market prices, requires financial and admistrative transparency
Direct income payments	Good: no distorting effects, no increase in AMS, provided they meet criteria	Not feasible in most developing country contexts
Public investment (extension, research, infrastructure, marketing and storage facilities)	Good: in general no distortionary effects or increases in AMS	Results may be too long term, particularly infrastructure. Investment in marketing and storage most beneficial. Difficult to target
Market access		
Non-tariff measures	Poor: tariffs should replace non-tariff measures.	May need to phase out tariffs slowly
Tariffs	Moderate: permitted within reduction commitment	
Export subsidies	Poor: subject to limitations	

Source: Adapted from FAO, "A Preliminary Assessment of the Uruguay Round Agreement on Agriculture"

NOTES

1. These are: pharmaceutical, construction equipment, medical equipment, steel, beer, furniture, farm equipment, spirits, wood, paper, toys.

2. Tropical products, natural resource-based products and manufacturing sectors are discussed in detail in chapter II.

3. There are a number of exceptions to this general rule: (i) a country may maintain restrictions on a primary agricultural product to the end of the six-year implementation period; minimum access commitment of 4 per cent would be increased to 8 per cent over this period; (ii) a developing country may retain restrictions on imports of a primary product that is a staple foodstuff, but must provide minimum access opportunities of 1 per cent, to be increased to 2 per cent after five years and to 4 per cent after 10 years. In both cases negotiations must be held if countries wish to make use of this "special treatment" after the end of the implementation period; and (iii) countries may impose an "additional duty" to protect their market if the volume of imports of a given product exceeds a "trigger level" in terms of percentage of domestic consumption and when import prices fall below a "trigger price" based on a 1986-1988 reference price. The amount of the additional duty is a function of the difference between the import price and the trigger price (i.e. similar to a variable levy).

4. This requirement does not apply to (i) measures deemed to have a minimum impact on trade or "decoupled" from domestic production (these are listed in annex 2 to the Agreement (the Green Box)); (ii) where support is less than 10 per cent of total value of production (5 per cent for developing countries), on a general or product-specific basis where relevant; (iii) direct payments under production-limiting programmes (e.g. bound set-aside programmes); and (iv) to developing countries, with respect to general infrastructural investment subsidies, agricultural input subsidies, or those applied to encourage diversification out of illicit narcotic crops.

5. Calculations by the secretariat based on COMTRADE statistics show that in recent years around 75 per cent of exports of manufactures from developing countries to developed market-economy countries originated in developing Asia, 18 per cent in Latin America and 4 per cent in developing Africa. See also Part One, chapter II, of *Trade and Development Report 1993* (UNCTAD/TDR/13), United Nations publication, Sales No. E.93.II.D.10.

6. For developing countries as a group, 12 sectors contributed with more than 2 per cent to their total earnings in 1992. These are: non-metallic mineral manufactures, manufactures of metal, non-electrical machinery, office machines and automatic data processing equipment, telecommunications and sound recording and reproducing equipment, electrical machinery and apparatus, automotive products, textiles, clothing, footwear and miscellaneous manufactured articles.

7. These are: non-metallic mineral manufactures; machinery and transport equipment; non-electrical machinery; office machines and automatic data processing equipment; telecommunications and sound recording and reproducing equipment; automotive products; sanitary, plumbing, heating appliances; furniture; and profesional, scientific and controlling apparatus.

8. For further details on tariff reductions on products of export interest to developing countries in the markets of Quad countries, see the background tables for this report which are available from the secretariat upon request.

9. For a description of the model see Sam Laird and Alexander Yeats, *The UNCTAD Trade Policy Simulation Model*, UNCTAD Discussion Paper No. 19, October 1986.

10. Products which, in 1990 accounted for not less than 16 per cent of the total volume of imports in 1990 of the products in the annex to the agreement.

11. For example, Canada has offered access to "contract-related natural persons" providing services which cover engineers, agrologists, architects, forestry professionals, geomatics professionals, land surveyers for a period of three months; and the United States has offered "specialty occupations" up to 65,000 persons annually on a worldwide basis in occupations requiring highly specialized knowledge and full state licensure, and very strict conditions such as the employer has taken steps to recruit and train sufficient US workers in the specialty occupation, etc., entry for such persons is limited to three years, and legal services practice as or though a qualified U.S. lawyer. Some developed countries withdrew certain horizontal categories at the last stage of the negotiations; for example, Switzerland withdrew the category of "other natural persons supplying services" who are employees of an enterprise not having a commercial presence in Switzerland and with a contract with a Swiss consumer of services and Canada withdrew its offer on computer systems analysts. Many of the offers by developed countries, e.g. EU and the Nordic countries, in the business sector have nationality or residence requirements which render access very difficult.

12. For more details on temporary movement of persons, see TD/B/CN.4/24, which elaborates on the domestic legislation on movement of persons and the international regimes based on regional arrangements and bilateral agreements.

GLOBAL COMPETITION FOR FDI: OVERVIEW AND POLICY IMPLICATIONS FOR ASIA AND THE PACIFIC

Andrew Proctor[*]

After spectacular growth in the second half of 1980, global flows of FDI started to decline in 1991, totalling $180 billion in that year, down from $230 billion in 1990; preliminary data for 1992 and 1993 indicate a continuation of this downward trend. The global decline occurred principally because of major falls in FDI from two key sources: Japan (which accounted for more than one third of the global decline) and Western Europe (which accounted for about 60 per cent), where the outflow was significantly smaller from France, Germany, the Netherlands and Sweden.

Despite the downward global trend, total flows to developing countries continued to increase at a rate about double the average rate of growth of GDP in these countries. The volume of new FDI in developing countries amounted to $31 billion in 1990, or 15 per cent of the global total inflows; and about two thirds of it was in Asian developing countries. In 1992, inflow to developing countries reached $40 billion, a 30 per cent increase on the previous year. With the reduced global total, this amount represented an estimated 25 per cent of the world total. This spectacular growth reflects improved macroeconomic performance, improved policy frameworks for FDI and active privatization programmes in a number of developing countries.

As a result of these substantial increases, FDI now represents the principal source of external capital in developing countries, surpassing official development assistance (ODA). It has also become the primary source of private capital for low-income countries.

The concentration of FDI outflows to developing countries is

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highly pronounced: two countries - the United States and Japan - accounted for nearly 70 per cent of the total in 1990. An interesting consequence of this concentration is the so-called triad pattern of FDI flows, with its regional associations, which appears to be growing stronger. United States companies favour Latin America and have made the United States the principal source country for the region, whereas Japan and the Asian NIEs are the main source of FDI in Asia. This pattern is evident from statistics on annual flows from the United States to Latin America and East Asia (respectively, $5.1 billion and $1.4 billion in 1990-1992), on the one hand, and from Japan to those two regions, on the other, where the proportions are roughly reversed ($2.1 billion and $4.4 billion). Another factor worth mentioning is the rapid increase of intra-developing country flows, particularly in the Asian region. In 1990, the Republic of Korea became the first net outward investor among developing countries and about 40 per cent of Korean outflows now goes to developing countries in Asia. It is expected that intra-regional investment will be given further impetus in the Asia-Pacific region as a result of the emergence of subregional growth zones.

Just as a small number of source countries dominate FDI outflows, the distribution of these flows is also concentrated. Ten developing countries continue to receive two thirds of the total, of which three together account for more than 35 per cent. However, amounts involved are small and the apparent concentration largely disappears, if FDI is measured as a proportion of GDP or gross domestic investment (GDI) of the recipient country. These ratios for the countries receiving the largest inflows are, in any case, not very different from the average for all developing countries.

With regard to the sectors of developing economies which are attracting FDI, investment shifted in the 1980s and the early 1990s, from manufacturing to the service sectors, particularly the capital- or technology-intensive service industries, such as telecommunications, transportation, banking and public utilities, which are being privatized and opened to FDI in a number of developing countries. Within manufacturing as well, there appears to be a similar move toward industries typically regarded as capital- and technology- intensive. At the end of 1990, manufacturing represented almost half of the FDI stock, while the proportion for services had risen to 30 per cent (up from 22 per cent 10 years earlier). The share of agriculture and mining was little changed, at 20 per cent, while natural-resource extraction seems to be attracting renewed interest.

Flows of FDI to Asia and the Pacific have risen dramatically during the last 10 years, growing from less than $2 billion in 1981 to over $20 billion in 1992, with an average annual growth rate of 40 per cent since 1987. Investment has been attracted by strong economic growth, especially in the newly industrialized economies and Indonesia, Malaysia and Thailand. These last three countries alone accounted for about 40 per cent of all flows of FDI to the region in 1992. More recently, however, the two biggest countries in the region have begun to make their presence felt. India has liberalized its FDI regime and achieved a notable increase in FDI inflows, while, in 1992, China became the region's single largest recipient of such flows. In considering these statistics, it should be noted that some countries - for example, Malaysia and Thailand - rather than focusing on increasing the quantity of inward FDI, have been seeking to raise its quality, so as to increase domestic linkages and promote technologically advanced industries.

From 1987 to 1990, taking advantage of a strong yen, Japan became the largest investor in the NIEs and ASEAN. However, Japan's regional investment fell from a peak of $8.2 billion in 1990 to $86 billion in 1992, as a result of which Japan fell to third place among countries investing in the region, behind Hong Kong and the United States. Nevertheless, despite this decrease in the total FDI outflow, Japan's FDI in East Asia continued to increase, the result of a major shift towards China in the 1990s. As Japanese investments in Asia remain very profitable (with returns three times those from the United States or Europe), it is likely that growth in Japanese FDI in the region will resume once an economic recovery is under way in the Japanese economy.

Although the newly industrializing economies continue to be significant recipients of investment flows, their rising labour costs have led both TNCs and some of their local investors to relocate to China and South Asia, where production costs are lower and the FDI climate is improving. As mentioned, China, for example, in 1992 became the largest recipient of inflows among all developing countries ($Il billion) and preliminary data for subsequent years indicates that this trend has continued. The flow of FDI to China in 1993 is estimated to have been $15 billion, and in 1994 it is likely to be even higher. The principal reasons for these increases are the same as those for many countries in the region as a whole - rapid economic growth, low labour costs, a large domestic market and rising per capita incomes. However, some factors particular to China have also been at work: it has improved its relationship with some of its neighbours (Indonesia, Singapore and Taiwan Province), introduced deregulation measures (June 1992) and preserved its MFN status with the United States.

The sectoral composition of FDI inflows in the region may change as countries seek to upgrade the quality of their inward investment. Malaysia, for example, wants to broaden and deepen its industrial base; promote capital-intensive and technologically sophisticated industries; develop intermediate and capital goods industries; and promote linkages between foreign and domestic companies. In order to achieve those objectives, it has revised its tax incentive system to encourage FDI in higher value added industries and services, and proposes to offer incentives to increase linkages with domestic producers via local procurement, staff training and the transfer of technology. In Thailand, a similar pattern is occurring and some industrial upgrading towards more technologically-intensive investments is already being undertaken by foreign oil and gas companies and some computer firms.

As mentioned earlier, an important development in Asia is the emergence and growth of FDI flows from developing countries to other developing countries in the region (e.g. from the Republic of Korea to China and Viet Nam). Investors from the NIEs are increasingly focusing on other, less developed countries in Asia as low-cost production bases for supplying both the region and the rest of the world and as a means of diversifying export markets in the face of growing protectionism in developed countries. As a result, interregional flows of investment in East, South and South-East Asia and the Pacific expanded rapidly during the second half of the 1980s and account for a growing share of the inward investments of the recipient countries. From 1986 to 1992, NIEs provided half of all FDI flows to developing East Asian countries, and as a group they have overtaken Japan since 1990 as the main investment source in South-East Asia.

The present level of competition among countries to attract FDI is not a new phenomenon. What is new is the degree of intensity and the aggressiveness and sophistication of current promotion efforts.

Developing countries that earlier had not thought it necessary to compete actively for foreign investment (in some cases because of their large domestic markets or significant reserves of natural resources, but in others because of a much lower priority accorded to private sector development and foreign investment) have begun to compete seriously for all kinds of FDI. The change in the basic approach to economic development by some countries has led to the entry of new competitors, such as Viet Nam and Eastern Europe, while competition for FDI has also increased because of the forging of new trading blocs in Europe and North America. Latin American countries have also recently begun to seek more FDI as a corollary to their substantial market liberalization and many African countries are now actively seeking FDI for the first time, in line with their plans for the restructuring of their economies. For all of these reasons, competition for FDI has intensified and can be expected to continue to do so.

It is clear, then, that the demand for FDI has risen and is likely to continue rising. What of the supply, particularly the factors which may affect the supply to Asia and the Pacific? Can the region expect FDI flows in the 1990s to continue to grow as fast as in the late 1980s? There are a number of new factors on the global stage which may have an impact, among which are:

- The creation of NAFTA and the new opportunities it provides. Will these divert the interest of United States TNCs from expanding their presence in Asia?;

- The integration of the European Community and the opening up of Eastern Europe. Are European firms likely to be preoccupied by events in Europe itself?;

- Are the intraregional FDI outflows from the NIEs likely to continue growing rapidly, particularly with the phasing out of the Multi-Fibre Arrangement?

Within this new environment, what can Governments do to attract FDI? An attractive investment environment is generally characterized by investor perceptions of:

- a sound macroeconomic climate;

- political stability;
- clear and efficiently implemented economic and investment policies;
- relatively few policy biases which favour one group of firms over another;
- the existence of a transparent, predictable and preferably automatic regulatory regime;
- an efficient institutional framework; and
- priority accorded by the Government to the removal of infrastructure bottlenecks and to human resource development.

There are also many other factors which affect investment decisions, including policies that are specifically aimed at investors. The most well-known of these are fiscal incentives, such as reduced tax payments by the investor, and, in some cases, government subsidies to the investor. The pattern of these incentives and the extent to which they are used to promote FDI have also undergone significant change over the past two decades: the trend in recent years has been for less frequent use of micro incentive measures, a recognition that they are of marginal importance to the investment decision. Thus a reorientation or realignment of investment incentives has taken place in many countries, with continuing emphasis on proactive (for example, agreements to avoid double taxation of foreign investors), rather than defensive measures. There also has been a noticeable trend away from horizontal, sector-wide schemes to vertical ones, such as those promoting the use of new technologies.

The traditional factors that shaped FDI flows to developing countries in the 1970s and early 1980s, such as low labour costs, location, product life cycle, and the servicing of a protected market, while still important, have weakened. In many industries, the proportion of labour cost to total manufacturing cost has declined and new patterns of the international product life cycle have developed. At the same time, changes in technologies in some sectors have altered the economic scale of production, weakening the case for offshore production in low labour-cost countries. In this new environment, FDI flows have generally been attracted to developing economies with an efficient and dynamic private sector, accompanied by responsive institutions and a highly motivated, skilled labour force. The key issue now, for those countries interested in attracting FDI, is to develop these characteristics.

To conclude, the nature of the competition for FDI has changed and is now largely focused on deregulation of the business environment - on facilitation of the private sector, rather than control - and a realization that Governments do not succeed in bringing about economic development through regulation but, rather, by seeing themselves as having a major role in facilitating private sector development. Those Governments which can convince potential foreign investors that this is their orientation (and that they have the ability to implement such programmes effectively), supplemented by investment promotion agencies which demonstrate the same philosophy and skills, will be the beneficiaries of the FDI flows of the next decade.

ASIAN DEVELOPMENT BANK: REGIONAL TECHNICAL ASSISTANCE FOR THE STUDY OF "EMERGING TRADING ENVIRONMENT: ECONOMIC IMPLICATIONS FOR DEVELOPING MEMBER COUNTRIES"

Narhari Rao[*]

The economic success of many developing countries has been built upon rapid expansion of exports. This process, which began with the newly industrializing economies, soon spread to South-East Asia and is now gradually working its way through, albeit somewhat slowly, into the South Asian economies. It is expected that the Pacific island economies will also gain from the global trading opportunities for the remainder of the 1990s.

The beginning of the decade presented a mixed picture of the external trading environment facing developing countries. The world economy was in deep depression, especially the industrialized economies. The picture was further complicated by the emergence of potentially strong trading blocs in which many Asian developing countries had little or no stake. These trading blocs appear to threaten multilateralism as an instrumnet for trade expansion and in settling trade disputes. And to make matters worse, the multilateral trade negotiations of the Uruguay Round were in a state of virtual deadlock. It was difficult to predict whether any agreement would finally emerge, and if so, how it would affect the exports prospects of developing countries. Adding to the uncertainty, several countries were involved in trade-related frictions and on several occasions it appeared that the era of liberal trade was for all practical purposes over. The scenario did not augur well for developing countries. Many of those in Asia had begun liberalizing their trade and payments regimes as early as the 1970s, had pursued prudent macro-economic policies and were thus reaping the benefits of liberal international trade on a sustained basis. Their economies had, over time, become more open and their economic performance dependent upon access of their products to expanding markets abroad. Other developing countries, particularly in South Asia, were undergoing the painful process of dismantling their trade restrictions after pursuing import substitution industrialization for decades. Their successful transition depended, to a large extent, on an open and flourishing global trading environment. While they had the option of pursuing closer economic cooperation and greater intra-regional tradea, it was well understood that there were limits to this route. Trade among Asia-Pacific developing countries had expanded rapidly and by the end of 1992 accounted for 35 per cent of their total trade. If Japan is also included, intra-regional trade was close to 50 per cent. The scope for further expansion of intra-regional trade was limited, at least in the short run.

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Many obstatcles that contributed to the gloomy picture of the early 1990s appear to have been overcome. The world economy is gradually coming out of recession and current forecasts point to growth of 2 per cent in 1994 for the industrial countries and about 2.7 per cent in 1995. The developing countries also are expected to grow, by about 5 per cent per annum over the same period, and the Asian region should continue to display dynamism, with an average annual growth exceeding 7 per cent. The export performance of the region is also likely to be buoyant, with average export growth of over 12 per cent in dollar terms. Export prices, particularly for primary commodities, should also begin to recover this year.

The optimistic medium-term economic outlook has no doubt been influenced by the successful conclusion of the Uruguay Round. The Agreements reached, when fully implemented over the years, have the potential of providing substantial benefits to the world economy, in terms of both higher incomes and faster, and more orderly, expansion of world trade. Although views may differ, there is no doubt that the establishing of the World Trade Organization (WTO) is of considerable importance as it brings under multilateral surveillance complex issues such as non-tariff trade barriers, and extends the scope of existing multilaterally agreed arrangements to new areas. For the first time, trade in agriculture will be brought under WTO rules and progressively liberalized. Equally significant is the agreement to bring trade in clothing and textiles and trade in services under the multilateral umbrella.

In addition to the UNCTAD study in this volume, some studies have been undertaken recently which have attempted to quantify the medium- to long-term impact of the Uruguay Round on the real incomes of broad regional groupings and of certain selected Asian countries. Other studies have attempted to quantify the effects on world trade. While the estimates provided are of considerable interest, many of these studies suffer from data and conceptual weaknesses. More importantly, with a few exceptions, these studies lack an explicit country focus and hence are unable to specify the policies that individual countries should adopt in order to reap the maximum gains from the new trading environment as it evolves over the next decade.

In an effort to assist developing countries in assessing the likely implications of the changed international economic environment for their economic prospects and to provide them with an objective assessment of the alternative policy strategies, the Asian Development Bank has recently initiated a regional technical assistance project entitled "Emerging Trading Environment: Economic Implications for Developing Member Countries". This project aims to keep in close touch with the agencies that are involved in analytical work of a similar nature, both within and outside the Asian region. Furthermore, research institutes within the developing countries will be appraised as the work progresses and close interaction with them is envisaged. Preliminary results of the exercise should become available by the middle of 1995, and the Bank is planning to host a conference in Manila in which the results of the findings will be discussed with developing country officials, representatives of multilateral agencies and international organizations and prominent academics.

The project will address two major areas. The first set of papers will analyze issues relating to the impact of the emerging trading environment on the region as a whole. These papers will focus on: growth in the global economy and exports from developing countries; market access problems and DMC export prospects, concentrating mainly on the nature and scale of existing restrictions on exports, as regards both manufactures (including textiles) and agricultural products; the effects of unilateral trade liberalization by developing countries in an unfavourable global trading environment, which is an important issue to Asian developing countries because they have been unilaterally liberalizing their trade and payments regimes in a progressive manner, despite unfavourable shifts in the global trading environment since the mid-1980s; the likely effects of the Uruguay Round on the trade prospects of the Asia-Pacific region, concentrating mainly on the medium-term effects of liberalization of trade in services, agriculture, textiles and garments, and on multilateral surveillance of intellectual property rights and uniform norms for trade-related investment measures. The study will also examine the implications for developing Asian of emerging trade blocs, especially NAFTA and EC, and analyze the feasibility of an East Asian trading bloc; it will evaluate ASEAN and SAARC, in particular the scope for intra-regional economic cooperation and integration, and examine the scope for regionalism as a vehicle for external liberalization. Finally, issues arising from factor market integration (both labour and capital) in the Asia-Pacific region will be studied.

Another set of papers will concentrate on specific issues facing developing countries. These papers will draw upon the broader issues discussed in the papers relating to the region as a whole and will explore in depth the specific impact of the altered international trading environment on individual countries. The short- to medium-term effects of the changed trading environment will vary among countries, depending upon their level of development, structure of foreign trade, existing regulatory framework and the extent to which liberalization of markets has been accomplished, and on whether measures have already been taken to gear the economy to face the enhanced competition that could emerge from a liberalized trading environment in both goods and financial services. Tentatively, the following countries have been chosen for in-depth analysis: Bangladesh, China, India, Indonesia, Republic of Korea, Malaysia, Pakistan, Philippines, Sri Lanka and Thailand. These 10 countries represent a wide spectrum of economies and include both borrowing and non-borrowing members of the Asian Development Bank. The rationale underlying the choice of countries is to enable an assessment to be made of the likely effects on economies at different levels of development and with varying trade structures. The choice of countries should not, however, be interpreted as indicating the priority that the Bank places on individual developing country members in its operations.

The Bank attaches considerable importance to this study in the light of the agreements reached in the Uruguay Round. The outcome of the study could also have implications for the Bank's operations in individual countries.

TRADE PROMOTION ORGANIZATIONS IN DEVELOPING COUNTRIES AND THE EXPERIENCE OF KOTRA

Dong Sik Jeong[*]

I. SIGNIFICANCE AND FUNCTION OF TRADE PROMOTION ORGANIZATIONS

Overview

A report prepared by the International Trade Centre UNCTAD/GATT (ITC) shows that some 90 countries around the world are presently operating organizations exclusively charged with the task of developing trade. Industrial countries of Europe, which have pursued trade liberalization and economic integration by removing quantitative restrictions to trade ever since the end of World War II, have been operating trade promotion organizations since the 1940s and 195Os.

In the Asian region, Japan was the first country to set up (in 1958) a trade promotion organization, the Japan Export Trade Promotion Organization (JETRO), to engage in comprehensive trade promotion activities. The Korean Trade Promotion Corporation (KOTRA) was established in 1962 and the Hong Kong Trade Development Council (HKTDC) in 1966. Other Asian countries set up independent organizations or government offices in the 1970s to engage in full-fledged trade promotion programmes.

Middle-East and African countries began in the late 1970s either to create independent trade organizations or to assign the task of trade promotion to the existing government offices in similar fields.

The dates of establishment of exclusively trade promotion organizations given above indicate that their creation was interrelated with the trend toward expanding exports.

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The creation of trade organizations in advanced European countries took place mostly in the 1950s and 60s when there was a trend toward expanding trade. In most developing countries trade organizations were established in the 1970s, when developing countries had a growing voice in North-South trade.

In fact, world trade was carried out largely among advanced industrial countries under the GATT system and the IMF from after World War II and throughout the 1960s; and in the 1970s the participation of developing countries in North-South relations grew, as a result of nationalizations and of the OPEC oil cartel, and full-fledged export promotion programmes were introduced under the slogan "Trade, not Aid".

Many countries have thus created trade promotion organizations with a view to using them as a conduit in embodying their comprehensive trade policies aimed at nurturing export industries and exploring overseas markets. All these countries channel quite substantial funds into the operation of trade promotion organizations. But as they support business enterprises through various trade promotion activities, supply of such large funds has the effect. In consequence, of curtailing trade-related indirect expenses.

Functions

Trade promotion organizations are entrusted with such various duties as collection of information on study of overseas markets, arranging exhibitions and engaging in public relations activities with a view to expanding the exports of their respective industries. There are three major functions of these trade organizations. First, there is the function of overall export support. In general, the trade promotion organizations of various countries are nonprofit organizations operating as public enterprises or with government subsidies. Their activities are not so restrictive as to support specific industries only. On the contrary, they implement comprehensive trade promotion and support programmes in the interests of entire industries, having regard to official trade policy support programmes for overall trade promotion are meant to carry out such programmes as market exploration on the basis of market survey boosting or participating in exhibitions, and public relations activities to promote new commodities or specific industries.

Second, there is the function of supporting official trade policies. Trade promotion organizations play the role of helping to attain the ultimate goals of government trade policies by carrying out, on behalf of the Government, projects related to various trade promotion programs based on trade policies. In this process, they help to establish medium- and long-term official trade policies or reflect them in trading activities in their respective countries.

Third, there is a function of external economic cooperation. As the realm of the activities of trade promotion organizations grows broader and more diverse, they perform the function of expanding economic cooperation through business cooperation among trade promotion organizations of the countries involved. In particular, they tend to carry out intensive programmes such as the dispatch of missions, holding of seminars and exchange of information designed to support economic cooperation among related countries.

In addition, there are some trade promotion organizations, such as AUSTRADE of Australia, and BANCOMEXT of Mexico, which concurrently offer banking services.

II. NATURE OF TRADE PROMOTION ORGANIZATIONS IN DIFFERENT COUNTRIES

Some 90 major trading countries around the world operate trade promotion organizations which are suited to their respective industrial and trade structures (see Annex). They can be classified into three categories: public organizations placed under government control, governmental organizations and private organizations.

According to a study by ITC of 89 organizations in 88 countries (there are two in Brazil), those operating as governmental or government-controlled offices represented 28, or 32 per cent of the total. Thus, the majority operated as government offices. Trade promotion organizations in the form of private bodies were no more than eight.

Apart from their legal status, these trade promotion organizations resort to separate methods of fund-raising and operation. The methods of raising necessary funds include support from state budgets, assessments on exports and imports, and revenues from donations and membership fees. Forty-four organizations (50 per cent of the total) depended on state budgets for their entire financial needs, while 29 others acquired funds partly through government support and partly through support from other sources. 16 organizations raised funds through assessment on exports and imports, donations, memberships fees, etc., without any direct government support.

Table 1 classifies these trade promotion organizations according to these three broad types of their financing.

III. COMPARISON OF ADVANTAGES AND DISADVANTAGES OF TRADE PROMOTION ORGANIZATIONS BY TYPE

Comparison of organizations

Trade promotion organizations can be classified by legal status, source of financing and organizational structure. In respect of their legal status, they may be state-run and public organizations, quasi-governmental offices or private organizations. When they are government offices, they are likely to be tied to the exploration and execution of projects related to official trade policy. However, they are sometimes prone to be weak in respect meeting the needs of the private sector.

In contrast, privately-run trade promotion organizations function differently. With the universal economic trend toward an economic system led by the private sector, more than 60 per cent of the world's trade promotion organizations are operated as a median type of government-run entity or a public enterprise. This structure can flexibly meet the needs of both policymakers and private companies, depending on changes in the surrounding environment. Such organizations face difficulty in maintaining consistency in the execution of their programmes.

As for the classification of trade organizations by the source of funds, one type depends wholly on the Treasury, another raises funds through assessments on exports and imports, and is completely independent of the Treasury, while a third type is a combination of these two. Those which are funded entirely from the Treasury have strong fund-raising capabilities

Table 1: Source of funds of national trade promotion organization:

Source	Country and trade promotion body
Entirely dependent on government finance (44)	Argentina (DNPC); Bangladesh (EPB); Brazil (ITAMARATY); Burundi (DCE); Cameroon (CNCE); Chile (PROCHILE); Costa Rica (CENPRO); Cuba (PROEX); Cyprus (TD); Denmark (EFR); Ecuador (DGPE); Egypt (EEPC); El Salvador (DGPDE); Gabon (CGCE); Germany (BFAI); Greece (HOPE); Guatemala (KIRECOM), Guinea (DAP); Guinea-Bissau (SPE); Haiti (PROMINEX); Indonesia (NAFED); Ireland (CTT/IEB); Italy (ICE); Kenya (KETA); Lesotho (TPU); Malaysia (MEXPO); Morocco (CMPE); Nepal (TPC); Netherlands (NFTA); Nicaragua (DIPEX); Nigeria (NEPC); Pakistan (EPB); Panama (IPCE); Paraguay (CEPEX); Senegal (ICES); Spain (ICEX); Sudan (EPD); Suriname (IEB); Tunisia (CEPEX); United States (ITA); Uruguay (COEX); Venezuela (ICE); Zaire (CCIZ); Zambia (FTD).
Government support, assessments on exports and imports, and other sources (29)	Australia (AUSTRADE); Barbados (BEPC); Belgium (OBCE); Benin (CBCE); China (CCPIT); Côte d'Ivoire (CCIA); Dominican Republic (CEDOPEX); Finland (FFTA); France (CFCE); Ghana (GEPC); Honduras (DGPEI); India (TDA); Israel (IEI); Jamaica (JNEC); Japan (JETRO); Republic of Korea (KOTRA); Malawi (MEPC); Mauritius (MEDIA); Norway (NE); Philippines (BETP); Portugal (ICEP); Singapore (TDB); Sri Lanka (EDB); Sweden (STDC); Switzerland (OSEC); Thailand (DEP); United Kingdom (BOTB); United Republic of Tanzania (BET); Viet Nam (EDC)
Assessment on exports and imports, donations, fees and other sources (16)	Algeria (ONAFEX); Austria (BWK); Brazil (CACEX); Burkina Faso (ONAC); Myanmar (TIS); Colombia (PROEXPO); Ethiopia (ECC); Hong Kong (HKTDC); Macau (EPD); Mexico BANCOMEXT); Niger (CNCE); Peru (ICE); Rwanda (CCIR); Sierra Leone (SLEPC); Taiwan Province of China (CETRA); Turkey (IGEME)

Source: International Trade Centre, UNCTAD/GATT.

and can maintain consistency in carrying out projects and fulfilling their role, but they face the risk of weakened operational flexibility as they are subject to strict national budgets and financial policies. Those that are independent of the Treasury prepare their own fund-raising plans, and to a considerable extent can thus operate autonomously and with flexibility, but there is also the risk that, because of uncertainty in the securing of funds, it may become difficult to carry out projects or to function systematically. One way of overcoming to a large extent the drawbacks associated with these two types of organization and ease the State's financial burden is by combining treasury funding with funding from other sources, but this involves the technical problem of determining the relative shares to be contributed by each source.

Lastly, trade promotion organizations can be classified by type of operational system, including whether they are regional, functional, or a combination of the two. The pure regional organization is strongest in executing regional projects or manpower specialization, but it tends to face difficulties in global projects or to overlap if different regional projects. The purely functional organization has an opposite effect. However, regional organizations face both personnel and material burdens. To operate efficiently the regional organizations need more than the specific number of personnel or amount of funds, and consistently nearly all trade promotion organizations are a combination of these two operational types.

In terms of type of projects, most organizations collect and process overseas market information through a regional organization, and explore overseas markets and support exhibitions through a functional organization.

Organizational and business structure of trade promotion organizations of major countries

The structure of national trade promotion organizations varies according to the functions performed. In what follows an attempt is made to examine the criteria for classifying organizations by major function, especially in the sector of trade promotion (market exploration, arrangement of deals, collection of information, etc.), rather than to compare organizations characterized by such differences.

The various departments of Japan's JETRO can be divided into three broad groups. The first includes the general affairs department, planning department, finance department and overseas project department, which performs the function of general staff. The second is the overseas economic information centre whose function is to collect and distribute information on the overseas economy and trade. The third group comprises the international exchange department, import policies department, exhibition department, publications department, machinery and technology department and agriculture-fisheries department. These departments deal with internal businesses (import policies, agriculture and fisheries) and a sector (international exchanges, exhibitions and publications) which especially requires professionalism.

The overseas economic information centre specializing in trade information, has a regional organization for information collection, since JETRO places greater weight on indirect trade promotion programmes, such as information and external cooperation, than on direct programmes such as the arrangement of deals.

In particular, as Japan's foreign trade volume has increased enormously since the beginning of the 1980s, JETRO has rapidly expanded its international cooperation programmes. The programmes feature activities aiming to stimulate imports from Japan by the Unites States and other advanced countries and to emphasize industry-by-industry cooperation with the developing countries, especially the ASEAN area.

As regards Taiwan Province of China, except for its general staff, the secretariat of the trade promotion organization (CETRA) is structured into four departments, dealing with market exploration, marketing information, exhibition and industrial design. Of these, marketing information, exhibition and industrial design can be taken ass professional departments. CETRA adopts a functional organization by commodity and industry in the exploration of markets. Because of its particular political situation, its activities are linked to diplomatic programmes.

The Trade Development Council of Hong Kong has exhibition, publicity and research departments, in addition to a general staff. For overseas programmes, it has sections for the regions of America, Western Europe, Japan, China, Republic of Korea, etc.

The major project departments of Italy's ICE are publicity, international cooperation, information, project execution; there are also specialized functional departments. As regards immediate trade promotion, there are 12 sections. In a so-called promotion project, they engage in concentrated marketing activities for three to four years for selected strategic items and markets.

In OBCE of Belgium, information, publications and overseas publicity are organized as specialized functions, but for actual trade promotion, there are regional organizations for Europe, Asia, Oceania, Africa and America.

Austrade of Australia has recently placed less emphasis on domestic programmes (monetary service, furnishing of simple information, counselling, etc.) and more on instead bolstering overseas programmes. The commodity development centre, which is responsible for both domestic and overseas projects, is organized under the functional or industrial system.

IV. ROLE OF TRADE PROMOTION ORGANIZATIONS IN DEVELOPING COUNTRIES

So far we have reviewed the general role and nature of trade promotions organizations in developing countries. Now, we consider how such organizations could provide better services to exporters in a rapidly changing world trading environment.

Information/marketing services

Trade promotion organizations of developing countries have been oriented to the gathering and dissemination of essential information for exporters to expand their foreign trade. Information, including economic statistics, has traditionally served as material for use in formulating economic and trade policies in various countries. In the future, however, trade promotion organizations should begin to focus on overseas marketing activities so as to enhance their ability to provide potential exporters with useful marketing and price product information (for instance, information on the marketing and price structure of overseas markets, consumers' propensity, strategy of rival industries, new commodities, etc.).

Trade promotion organizations should be more active in preparing in-depth studies on foreign markets. Such studies should be made readily available to companies seeking sales opportunities abroad. Market profiles would be most useful if they contained an analysis of the nature, characteristics and requirements of foreign markets. Given market fluctuations, such profiles should be updated on a regular basis.

In addition to preparing market profiles, specialists in trade promotion organization could provide valuable information to their client firms through questionnaires, analysis of consumer trends, cost analysis, etc. Such assistance could lead to product adaptation and new sales strategies, which in turn could lead to successful and long-term business relationships. Furthermore, trade promotion organizations can provide assistance to companies by serving as match-maker of sorts. Indeed, they should be able to identify prospective buyers and bring buyers and sellers together. An overseas office should be able to furnish a list of importers or agents of host country to manufacturers or exporters of home country by keeping comprehensive buyers' lists.

One of the most useful match-making services that trade promotion organizations can provide is setting up seller and buyer missions. Such missions have, in the past, proved to be successful in reinforcing previous marketing efforts. Both buyer and seller missions should be carefully organized in advance so as to yield the best possible results.

Dissemination of material is important in the processing of information. To improve the efficacy of the distribution of information, publications should be published separately by clients (domestic clients, overseas clients, etc.), by themes (information on manufactured goods, technology-related information, investment-related information, etc.) and by region (United States, European Community, South-East Asia, etc.). Moreover, information dissemination should be classified into two categories: detailed and professional information, on the one hand, and prompt information, on the other, depending on the nature of information, so as to facilitate a more effective response by industries.

In order to facilitate the more effective use of information material by clients, it is indispensable to incorporate accumulated information into a data base. The latest information on the economy, trade and investment in major trading countries should be itemized for computerization. There should also be a capacity to compile information related to overseas investment, such as investment incentives systems, the existence of industrial estates and cultural background, and to incorporate it into a data base in preparation for increasing demand for overseas investment.

Many small and medium-sized firms lack the expertise to market their products and services abroad. Trade promotion organizations can assist such firms by providing them with the services mentioned above.

Publicity and public relations

Publicity and public relations, which go hand-in-hand, are two important factors in developing a better relationship between sellers and buyers. Trade promotion organizations can assist their client companies a great deal by enhancing the image of their products through distributing publications, catalogues, leaflets, kits and other printed materials which are vital in creating foreign demand. In conducting a comprehensive publicity and public relations campaign, emphasis should be placed on distributing information related to a particular developing county to overseas clients as well as on improving the image of export commodities in various countries.

By furnishing general information on the industry, culture and tradition of developing countries to opinion leaders interested in the economic conditions of developing countries, mutual understanding and friendly relationship would be strengthened. In addition, overseas trade offices should extend a helping hand to small and medium-sized industries by supplying information concerning companies seeking to improve their sales promotion activities through foreign media and advertising outlets.

Overseas trade offices should reinforce their publicity activities to promote not only exports but also international cooperation. In this way, information on the domestic market, investment and exhibitions and fairs could be furnished to interested industries abroad as a means of helping them export to and invest in developing countries. The focus in public relations activities should switch from an export-first policy to a policy in which international cooperation would be further bolstered. Domestic publicity activities should be stepped up so that interested industries can have a better understanding of trade promotion organizations, thereby enabling the trade promotion organizations of various countries to play the role of de facto branch office for domestic industries.

Exhibitions

Participation in specialized exhibitions would be more effective than in general exhibitions. In this regard, efforts should be made to induce industries' participation in specialized fairs. In organizing international trade exhibitions, efforts should be made to strengthen mutual understanding among trading partners rather than to focus on business negotiations and transactions. In particular, to induce small and medium-sized firms to participate in overseas exhibitions, supporting measures should be employed whereby market information, together with counselling and participation subsidies, could be provided to participating firms. In addition, trade promotion organizations should assist client companies in following-up the commercial contacts made at such exhibitions.

In the case of domestic exhibitions, those companies needing should shall be selected according to a certain criteria, with a view to increasing their sales overseas. Exhibitions have hitherto been an integral part of trade promotion efforts, but exhibition programmes should now be carried out to emphasize international cooperation. In order to cope with the changing international trade environment, featuring greater trade friction, exhibitions and fairs should be held to ease such friction.

Policy research

Traditionally, trade promotion organizations have been less involved with policy research than with market research, publicity and other trade promotion efforts. Involvement in policy research is increasing, however, owing to the growing awareness that trade regulations have a significant impact on increasing exports.

By closely monitoring and analyzing trade policies of foreign countries, trade promotion organizations can keep their Governments informed of international trade climates that could potentially obstruct the development of foreign trade. Adequate, precise and timely policy research reports can sometimes help avoid the passage of laws and regulations which might hinder trade relationships with trading partners.

Policymaking is in most cases ultimately the responsibility of trade ministries, but trade promotion organizations should continue to play a supportive role. In doing so, they can help reduce trade friction and keep foreign markets open to their client companies.

Import liberalization

In order to reduce trade friction between developing and developed countries, careful attention should be paid to formulating import liberalization programmes. To this end, trade promotion organizations could establish an import research department at their head offices and strive to realize balanced trade with all trading partners, in respect of such factors as balance of trade by country, domestic market conditions and international competitiveness.

Import exhibitions might be held in cooperation with potential exporting partners as a means to strengthen the import research function of trade promotion organizations. In particular, in countries and areas where trade friction is acute, various buyers' missions could be dispatched while inviting sellers' missions so as to contribute positively to reducing trade friction.

Economic cooperation among developing countries

Promoting economic cooperation among developing countries is one of the major functions of trade promotion organizations. As part of programmes to develop exporting industries of developing countries, experts and trainees could be exchanged for the purpose of managerial, technological and trade promotion training. Leading developing countries are expected to assume a pivotal role in training programmes. Economic cooperation among developing countries might be further consolidated through mutual exchange of information on trading systems, promising export products, and technical know-how for the development of local exportable products.

Supporting local exporters

The strategy for supporting local exporters should be switched gradually from direct support activities, such as catalogue publishing, designing for exhibitions, and technical assistance in developing potential export items, to the encouragement of small and medium-sized industries, marketing of their products overseas and helping local exporters to become more internationalized.

In order to render fruitful business meetings between exporters and importers, it is very useful to arrange such meetings in such a way as to fit the business experience of clients. Those clients with more than two years of business experience are entitled to have a "General Arrangement Service" by which only general information essential for the transaction is provided. On the other hand, those who have no business experience in foreign trade are eligible for a "Special Arrangement Service" by which follow-up services are provided, in addition to general arrangement services, with the aim of assisting exporters to make transactions.

Encouraging overseas investment for small and medium-sized firms

Trade promotion organizations of developing countries are expected to encourage small and medium-sized firms to invest overseas, and so enlarge their export base, by providing them with information on investment opportunities and priority investment sectors of industries and on promising investment areas/countries.

V. HISTORY OF THE KOREA TRADE PROMOTION CORPORATION

Establishment and the early years (1962-1969)

To embody the national policy goal of correcting a chronic trade imbalance and achieving a self-supporting economy, the Korea Trade Promotion Corporation (KOTRA) was created on 21 June 1962 as an "organization for the promotion of trade" upon the launching of the First Five-Year Economic Development Plan in 1962. At that time the industrial basis of the economy and its export sector were very weak. There were 16,903 manufacturing firms, 823 trading firms and 69 export commodities. Of total exports of $55 million, primary products accounted for 73 per cent. Information and institutional backup for external trade were insufficient.

On the other hand, world trade was rapidly expanding, on the basis of the GATT's drive to promote and liberalize trade. As the centre of world trade moved from the United States to Europe, the world export markets for commodities expanded. The function of KOTRA, formed with the aim to "promote exports" in such an environment, was a complex one of offering guidance to domestic industries to help foster exports, recommending export promotion/policies to the Government and introducing or publicizing Korean commodities to foreign buyers.

In 1964, the attainment of $100 million of exports was celebrated. To boost the morale of export industries, 30 November was decreed "Export Day" and various commemorative programmes, such as citing contributors to trade promotion, were staged under the sponsorship of KOTRA. KOTRA had thus contributed to creating an export mood. To instill a sense of exports into the minds of domestic industries, consultative meetings were held between businessmen and experts by region and commodity in Seoul and provincial areas from 1964 to the end of the 1960s.

By opening an information centre for export counselling and ocean shipping schedules in 1965, KOTRA established a substantial support system for domestic industries. On 22 March 1967, an export school was opened to train expert counsellors. A total of 5,205 people were trained in 82 classes up to 1983. To explore overseas markets, trade missions were sent abroad starting with a trade mission to the Middle and Near East in 1965, and followed by many others. Beginning in 1963, commodity catalogues like "Korea Trade" and "Product Korea" were published and distributed abroad so as to publicize Korean commodities.

A trade mission from former South Viet Nam was invited to Korea in 1964 as part of the effort to enhance foreign buyers' understanding of Korean industries and commodities. It was the first foreign buyers' mission ever to visit the country; there have since been many others. Today such visits are promoted as part of economic cooperation programmes. In addition, KOTRA has made Korea's participation in exhibitions one of its major projects. The first exhibition in which the country took part under KOTRA's aegis was the New York World Expo held in 1964-1965. KOTRA consolidated its role as the only midwife of exhibitions and trade fairs after it sponsored a Korean trade fair from 9 September to 20 October 1968.

The fundamental policy of KOTRA through the 1960s was to expand its overseas networks so as to assess expeditiously overseas market situations and inform both the Government and industry about them, to explore overseas markets for domestically produced commodities, and to strengthen publicity activities so as to foster conditions for the sale of Korean commodities.

The size of KOTRA has been enlarged in keeping with internal and external conditions. As a result, the number of its KOTRA overseas outlets, which was no more than four at its establishment, had increased to 42, in 34 countries, in 1970, setting the stage for a further leap in the 1970s.

Period of export promotion (1970-1979)

The 1970s were a period when a new order was formed in the international community. As the economic strength of the United States, which had played a leading role in world economy, gradually weakened, the GATT trading system, underpinned by IMF, was shaken due chiefly to a decline in the value of the dollar and the suspension of the conversion of dollars into gold.

On the other hand, the resource nationalism prompted by the first oil crisis of 1973 had served to markedly expand the position of the South in North-South trade. The application of UNCTAD's generalized system of preferences (GSP) for developing countries was expanded to embrace the EC and all other advanced countries in 1971. Industrialization and export drives by developing countries were thus begun in earnest.

Meanwhile, as the United States standing declined in world trade, protectionism gained momentum, following trade friction among advanced countries or between advanced countries and developing nations. Here, provisions related to trade control were separately codified through GATT's Tokyo Round negotiations in the late 1970s, chiefly among advanced countries. Non-tariff barriers have since become the mainstay of export control by countries.

In this midst, there arose the need to reorganize the domestic export industries. For the purpose of trade expansion, efforts were increased to switch export programmes from quantitative expansion to quality improvement. Beginning in 1973, the Government embarked on the development of heavy and chemical industries in earnest as part of its policy to promote export specialization industries. As a result, the structure of export commodities improved remarkably. By 1977, when total exports attained $10 billion, the share of products of the heavy and chemical industries goods in total exports had reached 32.2 per cent.

Parallel with the growth of export volume, the export market, which was heavily concentrated on the United States, Japan and South-East Asia, was expanded to cover Latin America, the Middle-East and Africa. In 1973, the Statement of 23 June was declared to pave the way for indirect trade even with socialist countries. Moreover, to minimize trade disputes with trading countries and induce an expansion of mutual trade, a new trade policy was introduced with the aim of expanding trade with countries with which trade ministers meetings and trade agreements were to be held and concluded.

Under the circumstances, and reflecting the growing need for speedier and more accurate overseas market information in the face of expanded export volume, KOTRA's overseas offices increased from 42, in 34 countries, in the early 1970s to 87, in 66 countries, in 1979.

Meanwhile, the Export Information Centre and Research Department established in 1970, along with the existing Regional Research Department, served to sharply bolster KOTRA's information analysis and handling ability. In particular, the library set up under the Export Information Centre played a big role in furnishing basic information necessary for industries' export activities.

In addition, KOTRA took a leading role in studying the GSP and guiding industries on the application of this system, and thereby helped expand exports by taking advantage of GSP schemes. The Republic of Korea was in fact one of the first countries to make use of the GSP. The schemes differed greatly among countries, and the regulations on country of origin or the setting of ceilings were complicated. However, KOTRA successfully interpreted this system and kept industries broadly informed, thus serving to help them better take advantage of the system.

Meanwhile, in keeping with the Government's market diversification policy, KOTRA had expanded its offices in Latin America, Middle East and Africa on a yearly basis. KOTRA's head office in Seoul was restricted, accordingly. With a particular eye on the Middle East area, which was promoting fully-fledged economic development on the strength of vast dollar oil revenue in 1975, KOTRA established a "Middle-East Market Task Force" to study information on various projects.

In 1977, the Asia and Middle-East Sections were established for exclusive study of the Middle-East market. In addition, a Special Market Team was set up to deal with special trade information such as international biddings. The Special Market Team developed support programmes for indirect trade with socialist countries for the first time. Included in these activities were invitations extended to personalities of Eastern Europe and other socialist countries, support of Korean officials' entry into these countries and indirect participation in trade fairs there.

Toward the close of the 1970s a Special Project Section was created to integrate research and trade acceleration programmes. Finally, as KOTRA could extend its activities to countries of the north, and diplomatic relations were normalized with them beginning with Hungary in 1987, the Corporation came to assume a substantial role in policy towards those countries.

As the share of heavy and chemical industrial products in total exports increased, KOTRA established in 1973 a Heavy and Chemical Industry Section to bolster research activities on export markets abroad for these industries. In 1977, a Plant Export Study Team was set up, which went so far as to employ separate plant engineers to better facilitate support for plant exportation.

Moreover, as OEM finished-goods exports increased to the market of advanced countries, with emphasis on the electric and electronics sectors, demand for OEM Korean products grew in earnest from the United States and advanced European countries beginning in the late 1970s.

In keeping with this trend, KOTRA, being advised of the United States General Electric Company's intent to purchase parts for the first time in 1979, arranged and supported GE's parts exhibition in Korea. Ever since, this project has steadily continued in the form of the "Leading Overseas Industries" "Parts & Component Purchase Fair" or study mission. The project was rated as having contributed much to turn the country's parts industry into an export industry and to facilitate its technology development.

Meanwhile, in market exploration activities in the 1970s, overseas exhibition programmes were drastically expanded along with the dispatch of market exploration teams at the invitation of buyers' teams. The number of overseas exhibitions, which was less than 10 up until 1969, increased to 19 in 1970, 25 in 1975 and 43 in 1979. Since 1973, in particular, participation in specialized item-by-item fairs has been put back on track. Korea's participation in such fairs stood at 9 in 1973 and 20 in 1979.

Age of trade liberalization (1980-1989)

The 1980s were a period of East-West ideological confrontation that persisted for some 40 years and came to an end with the collapse of the Soviet Union in 1991. Economically it was a period in which the second oil crisis of 1979 and the outbreak of the Iran-Iraq war in 1980 had led to the stagnation of the world economy as well as to an acceleration of inflation and the threat of protectionism.

In the late 198Os, moreover, major advanced countries, such as the United States and EC, strengthened protectionism against leading developing countries such as the Republic of Korea in the course of the industrial organization, applying added trade pressure with the excuse of trade liberalization and the protection of copyrights. It was also a period in which economic regionalism gained momentum as could be seen in the economic integration of EC and the proposed economic integration of North America. On the other hand, the opening up of Eastern Europe led to the integration of East and West Germany, dissolution of COMECON and the dismantling of the Soviet Union, bringing about the sudden reorganization of the world economic order.

Domestically, the Government, through the Fifth Five-year Economic Development Plan launched in 1982, strongly displayed the intent to turn the economy into a more privately ruled system. Its export policy, too, was switched from one designed to expand trade volume to one calling for increased foreign exchange earnings through strengthened quality control. In addition, the Government introduced new industrial policies, with emphasis on turning all heavy industries into export ones, rationalizing imports, developing technology-intensive industries and nurturing small and medium-sized industries.

Beginning in 1987, when the Sixth Five-Year Plan went into effect, policies were emphasized to strengthen external economic cooperation, expand markets and ease trade frictions in a way befitting an age of trade surplus. Since the beginning of the 1980s, KOTRA's projects have been specialized with focus on support for exports by small and medium-sized industries and support for domestic industries to become internationalized. In the late 1980s, emphasis was switched to external economic cooperation commensurate with the trade surplus structure.

KOTRA's activities to support exports by small and medium-sized industries arrived at a dramatic turning point with its participation in 1983 in the management of Koryo Trading International Inc. (KOTI), a state-run general trading company. By taking over the management of KOTI, which had served as an export conduit for small and medium-sized industries without full export ability, KOTRA directed the major activities of KOTI to the greatest possible extend to support the activities of small and medium-sized industries.

For instance, previously, KOTRA's transactions arrangement programme ended in furnishing information on overseas trade arrangements to related domestic industries. Now, KOTRA extends support all the way, up to the stage of the conclusion of deals. As a result, KOTI, which had in the past suffered chronic deficits with exports amounting to $75 million and handled $7,980 cases in 1982, saw its exports reach $282 million and handled 22,686 cases in 1988, regaining its self-support ability. In addition, furnishing, the Office of Export Counselling for Small and Medium-Sized Industries was opened in 1984 to equip itself with a one-stop service system for such industries.

KOTRA also drastically bolstered its "study on paid consignment basis" of overseas market conditions for small and medium-sized industries, increasing the number of cases of such consignment studies from some 200 projects a year in 1984 to about 2,000 a year in the late 1980s. It thus explored an age of sales of information. Korea's market opening-policy was very cautiously promoted up until the early 1980s. In that period, KOTRA developed the Seoul International Trade Fair (SITRA) in 1982 and induced many domestic and foreign industries and some foreign countries to take part in the fair. Many of the foreign participants had their independent display halls. The fair helped the country better prepare against market opening in the future. SITRA, held every two years thus far, has emerged as Korea's leading regular international fair.

In addition, KOTRA took over in 1983 the operation of the Korean Exhibition Center (KOEX) established in 1979, and was thus able to host full fledged international fairs. KOEX, together with SITRA, have provided domestic industries an opportunity to come into contact with highly competitive foreign firms and products in the face of Korea's market opening. The exhibition hall was turned over to its previous operator with the expansion of KOEX toward the end of 1987.)

Full fledged market opening began to be promoted around the time of the Seoul Olympics in 1988. This was a period when advanced industrial countries such as the United States and EC, Korea's main export market, stepped up their protection against the rapidly surging influx of Korean products and intensified their pressure on the Republic to open its market.

In order to effectively cope with such trade friction, KOTRA strove to develop diverse trade cooperation programmes. By opening the Trade Promotion Department in 1988, KOTRA made greater efforts to study the trading systems and policies of advanced countries in a bid to ease trade frictions with the United States and it also waged activities to urge them to expand their exports to Korea by holding, for instance, a United States Products Show.

In 1989 KOTRA's functionally-oriented organization was readjusted, with more emphasis on regional programmes with a view to strengthening its trade cooperation system by region. As part of the readjustment, four regional departments were created for trade cooperation programs. In the late 1980s, opening and reform drives were waged in earnest in Eastern Europe. With hopes of inducing these socialist countries to participate in the Seoul Olympics, contacts with socialist countries were increased. Meanwhile, KOTRA-level activities to advance trade with socialist countries, promoted steadily since the mid-1970s, became highly effective with those countries' participation in the Seoul Olympics.

Efforts by KOTRA yielded their first fruits in December 1987. With the opening of its office in Budapest, Hungary, KOTRA elevated its northern section into a Special Project Department in 1988, and set up a separate Communist Bloc Information Centre. Afterwards, the opening of trade halls in socialist countries was promoted in earnest. KOTRA opened its office in Moscow toward the close of 1988 and another in Beijing in 1989. At present, there are 10 KOTRA offices former and present socialist countries.

An end to the age of ideological confrontation, brought about by the collapse of the socialist countries, is one of the biggest changes in the twentieth century. But the significance of the establishment of relations between the Republic of Korea and these countries cannot but be of greater importance to the Republic, which is still ideologically pitted the Democratic People's Republic of Korea. Behind this special achievement was the backup of efforts made KOTRA over a long period.

KOTRA of today and tomorrow (1990-onwards)

Since the beginning of the 1990s, the international economic order has undergone a great change. The change that has begun to take place in Eastern European countries in the late 1980s has led to persistent efforts there to switch to market economy. On the other hand, GATT is being threatened in the face of accelerated economic regionalization, such as completion of a the Single European Market and the conclusion of the North American Free Trade Agreement (NAFTA). Domestically, swift opening and liberalization have taken place since the late 1980s in the areas of trade, foreign exchange and travel, prompting a sharp increase in imports and a deterioration of the balance of payments. As a result, The trade surplus which emerged in 1986 did not last long. The trade balance turned negative again in 1990. Persistent inflationary trends and wage spirals have weakened the competitiveness of the countrys' export commodities.

Under the circumstances, KOTRA, beginning in 1992, was organized in favour of an export acceleration system. In a move to promote projects linked directly to exports, efforts were made to step up the dispatch market exploration teams, the invitation of foreign buyers' groups and participation in overseas exhibitions. To accelerate exports by small and medium-sized industries, KOTRA has resumed programmes to arrange export deals all the way through, up to the conclusion of deals, and has undertaken a set of new projects such as the designation of overseas KOTRA offices as the branches of individual small and medium-sized industries (800 firms in total per year) and digging out new export items (800 cases per year).

Efforts were also begun, in 1988, to establish KOTRA's long-term vision of the next century. The direction of its long-term development plan, worked out through studies done by outside research institutes and in-company workshops, can be boiled down to its performing the functions of (1) a comprehensive trade information centre, (2) an overseas marketing support centre, (3) an international trade cooperation centre. The role of a comprehensive trade information centre will be to improve the data base in respect of trade information and to keep up pace with the advent of an information society for the distribution of data through VAN networks. The centre is also projected to establish a prompt information delivery system between overseas KOTRA offices and the main office or domestic industries through the creation of KOTRA's Global Network in 1992-1996. In 1992, partly in commemoration of the 30th anniversary of KOTRA, electronic mailing networks were linked between the head office and KOTRA offices in Europe via Brussels. It was the first overseas electronic mailing link ever created between KOTRA and its overseas outlets.

For the role of an overseas marketing support centre, efforts are being made to further strengthen the function of overseas marketing. To this end, a so-called Marketing Initiative Programme (MIP) is being developed which, is designed to integrate various market exploration activities and integrate part of the market and commodity strategy. This project aims to select strategic markets and commodities in which various marketing tools are to be applied. A device is being worked out to enable KOTRA, private industries and the Government to jointly take part in it.

For the role of an international trade cooperation centre, KOTRA plans to execute, on a commission basis, trade-area cooperation projects out of the public aid programmes to be carried out in earnest by the Government in the remainder of the 1990s. At the same time, it is planned to expand various cooperation programmes with ITC and various national trade promotion organizations.

To achieve the realization of these long-term plans, KOTRA intends to drastically expand its infrastructure at home and abroad. In the first place, the construction of an integrated trade information research centre building, which will also house KOTRA, is about to begin shortly. KOTRA also promotes the construction of a Taejon area international exhibition centre and a second integrated exhibition hall. A plan further calls for the construction of a large-scale "Korea-Russia Trade Centre" in Moscow, to serve as a basis for regional cooperation.

KOTRA, which observed its 30th anniversary in June this year, shares a history with the full fledged economic development of the Republic of Korea. The country's economic development strategy, as is well known, has been led by exports. KOTRA boasts that it has been the propellant of the export drive, and this role will continue well into the next century.

Annex

LEGAL NATURE OF NATIONAL TRADE PROMOTION ORGANIZATIONS

Country	Acronym of Organization	Year of establishment	Status
Algeria	ONAFEX	1987	Public autonomous institution ascrib the Ministry of Commerce
Argentina	DNPC		Department of the Ministry of Comm and Industry
Australia	AUSTRADE	1986	Statutory authority
Austria	BWK	1946	Independent organization under pub
Bangladesh	EPB		Autonomous institution ascribed to t Ministry of Trade Industry and Com
Barbados	BEPC	1979	Autonomous institution ascribed to t Ministry of Trade Industry and Com
Belgium	OBCE	1848	Public institution
Benin	CBCE	1988	Department of the Ministry of Comm Handicrafts and Tourism
Brazil	CACEX	1953	Directorate of the Banco do Brasil
Brazil	ITAMARATY		Department of the Ministry of Foreig
Burkina Faso	ONAC	1974	Autonomous institution ascribed to t Ministry of Commerce and People's National Provisioning
Burundi	DCE	1971	Department of the Ministry of Comm Industry and Handicrafts
Cameroon	CNCE	1980	Autonomous institution ascribed to t Ministry of Commerce and Industry
Chile	PROCHILE	1974	Department of the Ministry of Foreig
China	CCPIT	1952	Non-governmental economic and tra organization composed of social dig and representatives from enterprise organizations in economic and trade
Colombia	PROEXPO	1967	Autonomous institution ascribed to t Ministry of Development and admini by the Central Bank
Costa Rica	CENPRO		Autonomous institution ascribed to t Ministry of the Economy
Cote d'Ivoire	CCIA	1984	Autonomous institution ascribed to t Ministry of Commerce
Cuba	PROEX	1977	Directorate of the Vice-Ministry of E within the Ministry of Foreign Trade
Cyprus	TD		Department of the Ministry of Comm and Industry
Dominican Republic	CEDOPEX	1971	Autonomous institution ascribed to t Ministry of Industry and Commerce
Ecuador	DGPE	1974	Department of Ministry of Industry, Commerce and Integration
Egypt	EEPC	1979	Autonomous institution ascribed to t Ministry of the Economy and Foreig
El Salvador	DGPDE	1981	Section of the Ministry of Foreign Tr
Ethiopia	ECC		Autonomous institution ascribed to t Ministry of Foreign Trade
Finland	FFTA	1919	Government-sponsored private asso

(Continued)

Annex (continued)

LEGAL NATURE OF NATIONAL TRADE PROMOTION ORGANIZATIONS

Country	Acronym of Organization	Year of establishment	Status
France	CFCE	1943	Public institution of industrial and commercial character, ascribed to the Directorate of Foreign Economic Relations
Gabon	CGCE	1974	Autonomous institution ascribed to the Ministry of Commerce, Technology Transfer and Rationalization
Germany	BFAI	1951	Autonomous institution ascribed to the Federal Ministry of Economics
Ghana	GEPC	11969	Autonomous institution ascribed to the Ministry of Trade
Greece	HOPE	1969	Autonomous institution ascribed to the Ministry of Commerce
Guatemala	DIRECOM	1968	Department of the Ministry of the Economy
Guinea	DAP	1968	Section of the Ministry of Economy and Finance
Guinea-Bissau	SPE	1984	Department of the Ministry of Commerce and Tourism
Haiti	FROMINEX	1986	Autonomous institution ascribed to the Ministry of Commerce and Industry
Honduras	DGPEI	1988	Directorate of the Ministry of Economy and Trade
Hong Kong	HKTDC	1966	Totally independent institution
India	TDA	1970	Autonomous institution ascribed to the Ministry of Commerce
Indonesia	NAFED	1971	Directorate of the Ministry of Trade
Ireland	CTT/IEB	1952	Autonomous institution ascribed to the Ministry of Trade, Commerce and Tourism
Israel	IEI	1958	Autonomous institution ascribed to the Ministry of Trade and Industry
Italy	ICE	1926	Autonomous institution ascribed to the Ministry of Foreign Trade
Jamaica	JNEC	1969	Autonomous institution ascribed to the Ministry of Foreign Affairs and Foreign Trade
Japan	JETRO	1958	Semi-governmental organization supervised by the Ministry of International Trade and Industry (MITI), established under special law
Kenya	KETA		Department of the Ministry of Commerce and Industry
Lesotho	TPU	1978	Section of the Ministry of Trade and Industry
Macau	EPO		Government Department, reporting to the Secretary for Economic Affairs
Malawi	MEPC	1971	Autonomous institution ascribed to the Ministry of Trade, Industry and Tourism
Malaysia	MEXPO	1980	Department of the International Trade Division, Ministry of Trade and Industry
Mauritius	MEDIA		Autonomous institution ascribed to the Ministry of Industry
Mexico	BANCOMEXT	1937	Autonomous institution ascribed to the Ministry of the Treasury

(Continued)

Annex (continued)

LEGAL NATURE OF NATIONAL TRADE PROMOTION ORGANIZATIONS

Country	Acronym of Organization	Year of establishment	Status
Taiwan Province of China	CETRA	1971	Autonomous institution ascribed to the Ministry of Economy
Thailand	DEP	1952	Department of the Ministry of Commerce
Tunisia	CEPEX	1973	Autonomous institution ascribed to the Ministry of National Economy
Turkey	IGEME	1960	Autonomous institution ascribed to the Under Secretariat for Treasury and Foreign Trade, Office of the Prime Minister
United Kingdom	BOTB	1972	Independent committee responsible for directing the services provided by the Department of Trade and Industry (DTI)
United Republic of Tanzania	BET	1978	Autonomous institution ascribed to the Ministry of Industries and Trade
United States	ITA	1982	Administrative unit of the Department of Commerce
Uruguay	COEX		Directorate of the Ministry of the Economy and Finance
Venezuela	ICE	1970	Autonomous institution ascribed to the Ministry of Foreign Affairs
Viet Nam	EDC	1982	Autonomous institution ascribed to the Foreign Trade Ministry

Summary of type of promotional institutions

Department or Directorate of a Ministry	24
Section of at a Ministry	4
Autonomous institution ascribed to a Ministry	42
Other public institution	11
Semi-private institution	7
Private organization	1

PART III

COUNTRY STUDIES

GROUP I: Countries and territories with successful export strategies

Hong Kong
Japan
Republic of Korea
Singapore
Taiwan Province of China

STRATEGIES FOR EXPORT SECTOR DEVELOPMENT AND MARKETING: THE EXPERIENCE OF HONG KONG

J.P. Lee[*]

I. ECONOMIC BACKGROUND AND CONTEXT

Review

Hong Kong has always been a trade-dependent economy. Begun as an entrepôt on the South China coast, it has diversified into manufacturing following the political changes in China and the Korean war. Ever since Hong Kong was industrialized in the 1960s, its manufacturing industry has essentially been export-oriented. It is officially estimated that around 80 per cent of Hong Kong's manufacturing output is eventually exported, and manufactures account for almost all domestic exports.

During the past three decades, Hong Kong's manufacturing industry and exports have grown significantly. While in recent years the marked increase in reexports has continued to provide the main impetus to growth, domestic exports continued to increase, though their growth subsequently stagnated. In 1977, the territory ranked only as the world's 26th largest exporter, with exports valued at HK$45 billion ($6 billion). By 1993, it had become the 8th largest exporter, with total exports valued at HK$1,053 billion ($135 billion), a 23-fold increase.

Hong Kong has enjoyed relatively high GDP growth, averaging over the last 10 years an annual 6.5 per cent. In 1993, GDP in Hong Kong amounted to HK$847.8 billion ($108.7 billion) at current prices, a growth of 5.4 per cent over the previous year. The official forecast for growth in 1994 is 5.5 per cent. GDP per capita in 1993 was HK$143,236 ($18,364), ranking Honk Kong within the lower middle range of OECD countries.

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Hong Kong's industrial development started
Prevriously, its economy was based on reexports and supp
The political changes in China in the 1940's, followed by th
with the consequent United Nations embargo and other tr
almost completely put an end to Hong Kong's entrepôt t

As a result, the arrival of Chinese immigrants fro
brought in entrepreneurs, skilled manpower and flight cap
basically provided the base of Hong Kong's industrializatio
textiles and metal products, industry has subsequently
footwear, plastics and electronic goods, machinery,
telecommunication products. Similarly, domestic exports
in quality and sophistication, and Hong Kong has b
exporter of apparel and toys. During the early decad
growth, the United States and the British Commonweal
United Kingdom, were Hong Kong's major export marke
of trade has changed over time, particularly with the
Commonwealth preferences, the formation of EEC and t
generalized preferences. The growth of China and i
regional trade in the Asia-Pacific region further changed
1993, Hong Kong's trade with the world increased by
HK$2,119 billion ($271.8 billion) of which two thirds wer
its four leading partners, namely China, United States, Jap
Province of China.

Development took a turn in the 1980s with the
Honk Kong as a centre for Chinese trade. In large measu
has been brought about by China's adoption of the "op
since 1978, which has not only led to a dramatic revival o
traditional role as an entrepôt for China, but also generat
in Hong Kong's outward-processing trade. In 1977, onl
cent of Hong Kong's domestic exports in real terms we
1993, China's share had risen to an all-time high o
overtaking the United States, the United Kingdom an
become the largest Hong Kong's market. As the territo
entrepôt for China became predominant, reexports recor
19 per cent rise, reaching HK$823 billion ($105 bi
Domestic exports, on the other hand, continued to be
ongoing structural shift in the composition of Hong Kon
in favour of reexport and registered a 5 per cent de

HK$223 billion ($28 billion).

Government development objectives and overall strategy

Hong Kong's trade development began as a matter of necessity. With hardly any natural resources, the economy was suddenly faced with large influxes of immigrants from China. With its experience in reexporting, Hong Kong's path of growth clearly will be in the development of trade. The Government is fully aware that exports must be on a sufficient scale to generate foreign exchange earnings to pay for imports, and that trade must continue to grow if the population is to enjoy a rising standard of living.

The exuberant growth of trade and the economy is facilitated by the laissez-faire policy adopted by the Government, a policy which has evolved over the years and one to be known as "positive non-interventionism". The role of the Government is to facilitate business activities by providing a favourable framework which allows the free play of market forces without protection or subsidy. Private enterprise and economic freedom have been the basic tenets of public policy.

Within this policy, the Government recognized a responsibility to provide an acceptable infrastructure, particularly in terms of industrial land, manpower and transport facilities, and to make available services which would enable business to become more competitive through productivity growth, quality improvement and product innovation. It also encouraged technology transfer through investment promotion. Finally, in economic development, the Government has consistently maintained Hong Kong as a free port, and avoided exchange control. In international trade, it has also insisted on adherence to the principles of GATT, tried to safeguard market access for Hong Kong exports, and sought to promote free trade and an open and stable multilateral trading system.

II. POLICY FRAMEWORK FOR DEVELOPING INTERNATIONALLY COMPETITIVE EXPORTS

General policies favourable to exports

Hong Kong's continuing success as a leading manufacturing and commercial centre is due to a simple tax structure and a low tax rate, a versatile and industrious labour force, an aggressive and innovative entrepreneurial class, efficient transport facilities, a fine port, excellent international communications and the Government's firm commitment to economic freedom, particularly in trade and private enterprise.

The Government takes the view that entrepreneurs in an open market economy know best what and how to produce and so should be allowed to conduct their business with minimal interference. Thus, except where social considerations are overriding, activities of the private sector are disciplined by market forces. With hindsight, this free-wheeling, market-disciplined system has helped create a continuous pool of highly motivated, profit-seeking entrepreneurs and has contributed to Hong Kong's economic success.

The Government accepts the responsibility for maintaining a stable currency vis-à-vis territory's principal trading partners. It is also firmly committed to the freedom of movement of funds in and out of Hong Kong, which has greatly facilitated international trading and overseas investment in the territory.

The Government appreciates the importance of providing the physical infrastructure and a stable and consistent legal framework within which business may thrive. It seeks also to ensure an efficient administration so that business initiative may not be thwarted by excessive bureaucracy.

Measures and incentives to production for export

Hong Kong's industrial success is built as much on the leadership of big firms as on the support and flexibility of the many small and medium-sized enterprises. Factories with no more than 20 workers consistently account for over 86 per cent of all industrial underkatings, and as much as 30 per cent of employment. To meet the need for premises of small factories, the Government started a flatted-factory programme in the 1950s. In the late 1960, under pressure from industry, it introduced a loan scheme for small industries in conjunction with commercial banks. The scheme attempted to provide equipment capital for small and medium-sized business which might otherwise encounter market difficulties. The scheme was not successful, and since then, no other special measure has been introduced.

It should netherthcless be pointed out that since the great majority of Hong Kong factories are small and medium-sized, the many government initiatives has taken to promote trade and industry can be regarded as already catering for the general needs of these enterprises. In other respects the Government adheres to the principle of not favouring any one industrial sector, and offers no incentive to product aimed for export.

Enhancing export capabilities

As Hong Kong industrializes, it faces the obvious situation of rising costs. Other low-cost producers are appearing on the scene, and some may be in a stronger position in terms of industrial structures or technology development. Overseas markets demand higher quality products but at competitive prices. While business firms encounter these challenges one after another with their acquired resourcefulness, the Government has taken a number of steps over the years to strengthen Hong Kong's trading capabilities. First, it has persistently sought to attract foreign investment to broaden Hong Kong's industrial and product base and to absorb technological and management knowhow. Second, the Hong Kong Productivity Council was set up, and one of its tasks is to provide technology transfer. Tertiary institutions have also joined in this effort. Third, the Government introduced a system of manpower training to provide more skilled manpower at the technological, technical and craft levels. In addition, it has introduced compulsory education up to 15 years old, and subsequently expanded capacity for secondary and tertiary education. Fourth, though rather belatedly, it has taken a more positive approach to technology and standardization. In the 1980s, it set up a calibration laboratory and a laboratory accreditation system. In 1990, it founded the Hong Kong Industrial Technology Centre to facilitate technological innovation and to act as the incubator for technology-based start up-firms. In 1992, the Government converted the Industrial Development Board into the Industry and Technology Development Council. A research and development fund was established, open to application by manufacturers. Meanwhile a decision will soon be made on setting up a science park, following positive conclusions from research.

Strengthening export marketing and distribution

Given the externally-oriented and open nature of the economy, Hong Kong's trade policy seeks to safeguard the economy's rights and fulfil its obligations under multilateral and bilateral trade or trade-related agreements. Hong Kong has always been a staunch supporter of GATT and its commercial relations are designed to ensure that its trading rights are protected and its international obligations are fulfilled. To meet Hong Kong's international trade obligations, the Government, in conjunction with major trade associations, administers a certification of origin and preference system to cover exports and reexports. The integrity of the system has been an asset to Hong Kong products under certification, which are admitted freely into major importing markets.

Similarly, to adhere to the terms of agreements, the Government operates an export quota scheme for textile products. The efficient functioning of the system has given confidence to importing countries in Hong Kong's intention and ability to observe international agreements.

As an integral part of the Asia-Pacific economy and with expanding economic links within the region, Hong Kong has joined the Asia-Pacific Economic Cooperation (APEC) and the Pacific Economic Cooperation Council (PECC). It has participated actively in their work with the objective of strengthening the multilateral trading system, assessing prospects for and obstacles to increased trade and investment flows within the region, and identifying issues of common economic interests and cooperating in solving them.

In the early days of industrial growth, the Government took it on itself to promote trade through missions and international trade events. Through a deliberate policy decision, the Hong Kong Trade Development Council was set up to take over this responsibility. The Council obtained its funding from revenue collected by means of an ad valorem fee on practically all Hong Kong imports and exports. Apart from trade missions and overseas trade shows, the Council has in recent years extended its role to staging exhibitions in Hong Kong and promoting the design and quality aspects of Hong Kong products.

Public and private sector support systems for exporters

The Trade Department of the Hong Kong Government is responsible for commercial relations with other countries. It implements trade policies and agreements and administers import and export licensing and origin certification. Its major tasks include the conduct of trade negotiations, the implementation of textiles agreements, and the collection and dissemination of information on developments which may affect Hong Kong's external trade, especially those relating to trade policies and measures adopted by its major trading partners.

A special feature of the Hong Kong success story is the partnership between the Government and the business community to provide strong support systems to maintain and enhance the interests of the territory's manufacturing industry and trade. These consist of:

(a) committees and boards to advise the Government on trade and industry issues;

(b) institutions set up for specific purposes; and

(c) private sector business associations.

With regard to (a), they cover many aspects such as textiles, certification of origin, general trade and industry issues, technology, laboratory accreditation and so forth. The committees are made up of government officials, leading businessmen and professionals in specific fields.

With regard to (b):

The Hong Kong Trade Development Council (HKTDC), set up in 1966, is a statutory body responsible for promoting and developing Hong Kong's trade. As the marketing arm for manufacturers, exporters and importers, it plays a vanguard role in opening-up new markets for Hong Kong companies and in helping them to increase market share. Through a network of overseas offices, TDC generates international awareness of business opportunities in Hong Kong. The Board of the Council consists of government officials, businessmen, and representatives of business associations;

The Hong Kong Export Credit Insurance Corporation (ECIC), set up in 1967, is a statutory corporation to provide insurance protection to exporters against the risk of monetary loss arising from non-payment by their overseas buyers for goods exported and services rendered on credit which are not normally covered by commercial insurers. The maximum percentage of indemnity against country and buyers' risks is 90 per cent. The Commissioner is advised by a board consisting of government officials and businessmen. The Corporation is run on a profit and loss basis, although the Government provides the necessary guarantee to cover its liabilities;

The Hong Kong Productivity Council was set up in 1967 as a statutory body to promote awareness and practice of quality, productivity, design and process innovation. It provides consultancy, training and research services and facilitates technology transfer. It is partially subsidized by the Government and its Board consists of government officials, academics, representatives from management and labour;

The Hong Kong Industrial Estate Corporation, set up in 1977 as a statutory body, provides industrial sites for industries which require a significant amount of land for low-level development. Leases are offered at below market prices to attract new industries/processes or advanced technology in order to broaden or complement Hong Kong's light manufacturing activities. The Corporation at present runs two estates, and is constructing a third one. It is subsidized by the Government and its Board consists of government officials, academics and businessmen;

The Hong Kong Industrial Technology Centre is a statutory body set up to foster technological development. As it is not yet in full operation, it is heavily subsidized by the Government, but it is expected to operate eventually on a profit and loss basis. The Board consists of government officials, academics and businessmen.

In addition to these semi-governmental organizations, many associations have been established voluntarily to represent private industry or commerce. Among the large and influential bodies, the Hong Kong General Chamber of Commerce is the oldest and internationally recognized trade association in Hong Kong. Founded in 1861, its membership of over 3,700 companies represents every sector of commerce and industry.

The overall role of the Chamber is to promote, represent and safeguard the interests of the Hong Kong business community. It operates a number of specialized services, including the promotion of trade and industrial investment, organizing trade and goodwill missions overseas and receiving inbound delegations, processing overseas trade enquiries, and issuing Government-authorized commercial trade documents.

It is the Government's practice to invite representatives of major or relevant business associations to sit on government advisory committee or on the boards of statutory bodies formed for specific purpose. In addition, the Government also formally or informally consults major or relevant business associations on various issues.

Following the introduction of elections for the Legislative Council in 1985, the membership of some major business associations is recognized as a functional constituency, and is given the right to elect a legislative councillor. Thus business has a channel to voice its views at the highest legislation level. It may be observed, however, that membership of all business associations in Hong Kong is voluntary.

Outlook for export expansion to the year 2000

After some 30 years of economic growth mainly driven by domestic exports, the economy has now entered another phase of development. As mentioned earlier, manufacturers are increasingly setting up factories in China or making use of outward processing arrangements in there. This has resulted in a drop in domestic export and the manufacturing labour force. Meanwhile, the tertiary sector is steadily planning to assume a greater role in the economy, and Hong Kong's role as a regional financial centre has gained increasing importance. None the less, given Hong Kong's long and successful experience in international trade and a favourable business environment, it will be surprising if business does not make use of Hong Kong as the base for trading whether within the region generally or with China in particular. Hong Kong's established trade connections with major economies will continue to be an asset to the business community. Meanwhile, through the Government's push for knowledge-intensive or technology-based industries, manufacturing will change its character, and will have a place in the world market.

Hence it is the Government's policy to continue its tried economic and trade policies. Hong Kong will continue to be a free port with no exchange control. It will uphold the principles of GATT and of a multilateral trading system. The Sino-British Joint Declaration which maps out the future after June 1997, provides that Hong Kong will continue to maintain the prime features of its system based on economic freedom, that it will be a separate customs territory, and that it will participate in international economic and social activities on its own. This framework therefore preserves the market access opportunities for Hong Kong in the future.

Hong Kong is in the fortunate position that, on the one hand, it has easy access to the Chinese mainland, specially the southern part, while on the other hand it is actively linked in trade and investment with other Asia-Pacific countries. It is predicted that by the year 2000 50 per cent of the annual growth of the world economy will come from East Asia, and Hong Kong has the opportunity to participate in this growth process of the region.

China's economic growth in the past decade or so has already been an important factor in Hong Kong's vibrancy. It has, for example, helped to alleviate the recessionary conditions which Hong Kong may have to undergo and which have plagued much of the world economy in the past few years. China's long-term economic outlook remains favourable, despite recurring problems, and the officially forecast growth rate is 8-9 per cent per annum up to the year 2000. This should continue to present promising business opportunities to Hong Kong.

At the same time, Hong Kong will not overlook revival of its traditional major markets which have suffered from economic slowdown in varying degrees in the recent past. It is anticipated that any marked revival may come slowly, but the boom in the Asia Pacific region may offer some growth impetus to other parts of the world.

Regional economic grouping have in the past few years increased in number and intensity. Concern has been expressed that lest they become hindrances to international trade. No doubt, the purpose of such groupings is to enhance cross-border trade and investment, or to achieve economies of scale among the constituent countries, but as long as the arrangements are such that they do not introduce new obstacles to world trade, or to world capital or labour mobility, such groupings may help external trade to grow in the long term. As long as free-trade principles are observed and applied without discrimination, business should be able to bring world trade to new horizons. It may be worth mentioning that world trade has recently been influenced by non-economic considerations, such as environmental conservation or animal rights. It is to be hoped that these and other pressures do not erect new barriers to international trade.

The economic strength of the Hong Kong economy offers to exporting countries the opportunities to exploit the domestic market. The Government is vigorously pushing ahead to improve Hong Kong's physical infrastructure. Apart from spending on the new airport core project, which will stretch up to 1997, if not beyond, the Government has committed itself to deploying HK$78 billion ($10 billion) over the next five years. Through these programmes, for example, Hong Kong will have a modern airport with an initial capacity of 35 million passengers a year, and eventually 87 million. The port will have a capacity to handle 912 million 20-foot containers. By 1997, the territory's GDP per head will reach HK$238,000 ($30,500), and the value of total trade will be HK$4,300 billion ($548 billion).

Overall, the prospects for further export expansion are good. Hong Kong will be able to contribute towards this development if it can continue its well-tried successful public and trade policies and strategies, and enhance its already acknowledged operational model of an international business centre.

JAPANESE EXPERIENCE IN POSTWAR EXPORT POLICY AND JETRO'S MAIN ACTIVITIES

J. Fujiwara[*]

The international trade policy of the Japanese Government, carried out through the Ministry of Trade and Industry (MITI), has been geared toward import and investment promotion. In line with this policy, JETRO is now aggressively promoting imports, overseas investment and economic cooperation with developing countries. For example, its Jakarta Centre promotes the export of various products of Indonesia. For this purpose, some samples of the products are brought and sent to Japan where market research is undertaken. At the same time, experts from Japan instruct producers how to improve their products to satisfy Japanese demand.

Consequently, the Japanese Government and JETRO have changed from their focus on export promotion to a focus on import promotion. Since the theme of this workshop is export promotion strategies, this paper will touch briefly on three areas of concern: firstly, industrial policy to strengthen the industrial structure, secondly, export promotion policy and finally the export promotion activities of JETRO.

I. INDUSTRIAL POLICY TO STRENGTHEN THE INDUSTRIAL STRUCTURE

A brief history of industrial development in Japan is in order because the most important factor in sustaining continuous export growth is to raise the competitive power of industries, or to strengthen the industrial structure. The course which Japan followed may be generally divided into three periods.

The Reconstruction period (1945-1959)

After the war, the bulk of industrial facilities in Japan lay destroyed, and production fell drastically. In an effort to rehabilitate the economy and stabilize the livelihood of the people, the Government sought to use the precious little stocks of raw materials, capital and foreign currency reserves to rebuild the key industries such as power, coal and steel. By around 1955, the economic reconstruction programmes had been completed with considerable success. The Government then followed through with its industrial policy by rationalizing the industry with the intent of preparing itself for an open economy.

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The period of rapid growth (1960-1969)

During the 1960s, Japan actively sought to open its economy to foreign competition by liberalizing trade and international capital transactions. In the process, Japan achieved rapid economic growth.

Japan became affiliated with GATT in 1955, when the Government initiated a Trade liberalization programme, which raised the ratio of liberalized imports from 49 per cent in 1960 to 93 per cent in 1964. Japan changed status in 1964 to that of an Article VIII nation of IMF. When it joined OECD in 1967, it adopted measures of liberalization in the area of international capital transactions. Under such circumstances, the Government drew up an industrialization programme based on heavy and chemical industries.

The period of qualitative consolidation (1970-1979)

The development of heavy and chemical industries helped Japan's industry as a whole to strengthen its competitive position in world markets. On the other hand, the heavy concentration of industries and population in the Pacific belt area gave rise to the serious problem of environmental pollution and the degradation environment. Against this background MITI implemented the policy of creating a knowledge-intensive industrial structure.

In the 1970s, there was a vigourous growth of highly innovative assembly industries, typified by various machinery and electronic equipment. At the same time, there was a wave of industrial switch-overs away from areas such as textiles and household goods, etc., which had lost out under the intensifying competition from developing countries on account of the strengthened yen.

Industrial policy aimed at a dynamic and sustained growth of industry. The pursuit of this policy entailed a series of changes in the nation's industrial structure. The measures taken for this purpose, which relied mainly on the extension of credit and tax incentives, were twofold: (i) positive adjustments aimed at scaling down structurally ailing industries; and (ii) fostering growth industries by spurring their technological innovation.

II. EXPORT PROMOTION POLICY

The industrial policy measures described below were accompanied by specific measures to promote exports. Although almost all of them have already been abolished, they may be summarized as follows:

Breaking away from "blindfold trade"

One of the most serious defects of Japan's trade after the war was that it was constituted by what is termed "blindfold trade" - i.e. the export of goods to other countries without having proper information about these countries. Also, overseas markets in general did not have a sufficient understanding of Japanese goods. To remedy this situation, in the private sector trade firms opened branch offices and sent resident staff overseas, and in the governmental sector, in 1958, the Japan External Trade Organization (JETRO) Law was enacted for the purpose of gathering quick and accurate information and enlightening of the overseas markets regarding Japanese commodities.

Export finance

Short-term financing was possible through such instruments as export advance bills, by which financing was made prior to shipment. This system was abolished in 1972. Medium and long-term financing was made through (a) investment and financing by the Export-Import Bank of Japan (1952) and (b) export promotion financing for the specially designated medium- and small-sized enterprises, financed by the Smaller Business Finance Corporation.

Special tax system

The export income deduction system was implemented as a export promotion tax system. It was abolished, however, in 1964.

Export insurance system

This system was established in 1950 and was placed under th jurisdiction of MITI. Since then it has developed into a system whic includes regular export insurance, foreign exchange fluctuation insuranc and overseas investment insurance, etc.

Inspection system for the export goods

The Export Inspection Law was implemented in 1958. The Law' ultimate purpose was to maintain and improve the overseas reputation o goods exported from Japan. As such, the designated goods were no allowed for export unless they successfully passed export inspections an carried a label to that effect.

Improvement of the design of export goods and the prevention of imitation

Considering that the improvement of the design of expor goods plays an important role, such projects as sending students abroa to study design, and inviting foreign designers and merchandise specialist to Japan have been conducted mainly by JETRO throughout the 195 and 1960s. Also, in 1959, the Export Design Law was adopted to protec design and prevent imitation of such design.

III. JETRO'S MAIN ACTIVITIES

JETRO was established as a non-profit trade promotio organization back in 1958 under special legislation and with 100 per cen government investment. JETRO began immediately to play an importan part in the collection and dissemination of trade information. Its oversea offices further served Japanese businessmen by functioning as their bas on their trips abroad. JETRO's activities in the past have always reflecte the place occupied by Japan in the world economy and trade, but th share of export promotion in all such activities has been declinin drastically. Past export promotion activities of JETRO included th following:

Basically, nine types of export promotion activities were carried out: the first and most important of these was, and remains, research. Domestic and overseas staff studied actual conditions in overseas export markets and relayed their findings back to the private sector. This research covered everything under the sun relating to exports, from the demand for specific commodities to the means for successful local sales. JETRO also studied the economic trends of the target country or region to obtain an overview of the market.

JETRO collected information relating to import systems, price trends, import channels, trading ports, customs clearance procedures, and transportation channels after customs. On a more specific level, investigation was also made of the credit ratings of importers and wholesalers, retail prices for individual commodities, margins for each step of the distribution system up to the retail sales level, and local trade practices. The demand trends for individual commodities were also examined.

The dissemination of this information through trade information centres constituted the second activity. Traders and other businessmen made wide use of the information at these centres, in which "yellow pages" type telephone directories, trade statistics, catalogues of foreign products, tables of customs tariffs, and other information were to be found. All of this was also available for review by the general public.

The third activity related to exhibitions. JETRO hosted overseas fairs on its own and participated in numerous international fairs to assist the overseas market development of Japanese firms.

Fourth, JETRO tried to publicize the superiority of Japanese products and industry through publications and pamphlets.

Fifth, JETRO offered trade consultation services on business prospects which, were particularly useful to small businesses.

Sixth, on a more practical level, JETRO helped improve the design of export commodities. Design information was collected overseas for use in adapting Japanese products to foreign tastes.

Seventh, JETRO kept watch for signs of oncoming import restrictions in advanced countries and strove to develop flexible responses to present such restrictions from materializing and affecting trade.

Eighth, JETRO's overseas offices offered information and other conveniences for Japanese businessmen travelling overseas for market surveys and business negotiations.

Finally, JETRO actively disseminated information through publications. It published a daily trade bulletin, for example, which carried national economic reports and commodity and industry information compiled by overseas offices. A white paper on overseas markets and other material for the Japanese industrial world was also put out.

It should be emphasized that Japan's export promotion policies and activities may not necessarily apply to other countries. The concentrated, systematic export promotion campaigns taken by Japan coincided with the so-called "Golden Sixties" of world trade. Consequently, the experience of Japan could not be applied wholesale to developing countries in the 1990s. In any case, it is important to note that no matter what type of export promotion policy is followed, that policy must reflect real world conditions - in other words, the strength of one's own industries and the state of the international economy.

Also, it should be stressed that the most important factor in export promotion is the independent effort of the private sector. No matter how good a country's promotion policies may be, it is the private sector that makes those policies and system work. Without the commitment and effort of the private sector, export promotion policies are meaningless exercises of Governments and government agencies.

THE EXPERIENCE OF THE REPUBLIC OF KOREA IN TRADE EXPANSION AND GROWTH: CHALLENGES AND OPPORTUNITIES IN THE POST-URUGUAY ROUND ERA

Sun-Kun Yoon[*]

I. PAST ECONOMIC DEVELOPMENT OF THE REPUBLIC

Economic development strategy

It is well known that the Republic of Korea has achieved tremendous economic growth in the past decades. Moreover, it is generally agreed that the positive role of the Government has been a decisive factor in this respect.

Defining the precise stages of development, especially considering the fact that the expansion period has been relatively short, is by no means an easy task. However, the relatively short history of country's economic development can be conveniently divided into several stages that are characterized by distinctive development strategies: (i) the reconstruction period (1950-1961); (ii) the period of export-led growth strategy (1962-1972); (iii) the drive toward heavy and chemical industry (1973-1980); and (iv) the period of stabilization and liberalization (1981 to date).

Reconstruction period (1950-1961)

The Korean war nearly made obsolete the country's already weak industrial base. Because of extremely low income levels, the national savings rate did not exceed the 5 per cent level, which typically brings about a seemingly endless cycle of poverty. In addition, policymakers were basically inexperienced in planning and managing economic development, and they were unable to find an optimal strategy to overcome the difficulties.

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Like most developing nations that sought to embarak on economic development, industrial policy in the Republic emphasized import substitution in a few consumer and intermediate good industries such as flour milling and fertilizer manufacturing. The investment-savings gap, owing to low savings rates, was largely filled by foreign aid. However, because of the small domestic market and the large capital requirements of the industrial investment projects, the import-substitution policy soon reached its natural limit.

The implementation of land redistribution programmes for agricultural use during this period improved income levels. However, with the traditional capitalist class destroyed, the private sector played a rather insignificant role in industrial reconstruction. This period also marked a turning point for education. In both household and the public sector, education constituted a significant proportion of total expenditures. Though economic performance was quite poor (during 1953-1961, GNP growth averaged 3.7 per cent per annum and real per capita income grew at 0.7 per cent per annum), the educational investment in the 1950s later became an essential element in pursuing the development strategy of future decades.

Export-led growth strategy period (1961-1972)

In the 1960s foreign aid rapidly dwindled, causing run-away inflation in 1963 and 1964. Income levels remained very low ($82 in 1961) and massive unemployment in urban areas became a problem. In response, the Government solicited advice from experts in various fields and launched a Five-year Economic Development Plan. The plan was outward-looking in nature, featuring the export promotion of labour-intensive, light industry products.

In this period about two thirds of the population, which was growing at an excessive rate of 2.9 per cent per annum, was agrarian-based. The supply of arable land, however, was fixed and population density was high. Furthermore, income levels were quite low and the land was not endowed with any usable natural resources. The only abundant resource was the country's human capital and well-educated labour force.

The mid-1960s were awatershed in the Republic's economic history. The philosophy of liberalization was applied in actual policy reforms.

Before the series of reforms, the Government tightly controlled major price variables such as the exchange rate and interest rates. In particular, the Korean won had been overvalued and official interest rates were suppressed at a level far below that of the curb-market rate. The overvaluation of the won was maintained to stabilize domestic inflation by inducing imports. Low interest rates, meanwhile, were maintained to encourage investment by lowering capital costs.

The first reform was "actualization" of the foreign exchange rate (a drastic depreciation of the won). It was followed by a financial reform measure that raised the official deposit rate from 11 per cent to 30 per cent in 1965. In 1967, policymakers introduced a so-called negative list system of import licensing, a big step toward a free-trade regime.

Around that time, the Government also began to encourage the inflow of foreign capital. These price-correcting reforms were aimed primarily at mobilizing domestic savings and promoting exports. The Government also provided various fiscal and financial incentives to exporters.

Largely due to these reforms, the national savings rate increased drastically from 3.2 per cent in 1965 to 14.5 per cent in 1971. During the First Five-Year Economic Development Plan period (1962-1966), exports quadrupled and the value of imports nearly doubled. During the Second Plan period (1967-1971), exports again increased about four-fold and imports tripled. During these two plan periods, the economy maintained a high average growth rate of 8.7 per cent (6.9 per cent per capita), mostly because of export expansion. And from 1965 the inflation rate remained relatively stable.

Heavy and chemical industry drive period (1973-1980)

In the 1970s, the outward-looking development strategy was no longer the main policy. The focus of industrial policy shifted from fostering labour-intensive export industries to rearing heavy and chemical industries, as evidenced by the establishment in 1973 of the Committee for Heavy and Chemical Industry Development.

The Government initiated this shift in industrial development strategy for several reasons. Following two especially important events in the early

1970s (specified below), policy-makers began to recognize the vulnerability of the country to external shocks. One event was the opening of diplomatic relations between China and the United States, which incurred the fear of a possible withdrawal of American troops. The other was the first oil crisis in 1973 and rising protectionism in the world economy. Therefore, achieving self-sufficiency in various fields, including food grain production and national defence, became high-priority national goals.

To promote this strategy, official interest rates were continuously adjusted downward in spite of the chronic inflation of the 1970s. Moreover, generous and targeted tax incentives were provided to investment projects in the heavy and chemical industries. Investment funds from domestic and foreign sources were directed to these sectors, usually on favourable interest rate terms.

Though the bold promotion of investment projects in the 1970s resulted in high growth (average annual growth in 1972-1979 was 9.1 per cent) and rapid capital accumulation, Korean society paid a substantial price for executing such a policy. For example, the lax monetary policy, together with suppressed interest rates, resulted in extremely high inflation, which in turn had a largely negative impact on the real estate market. Ironically, the promotion of a self-sufficiency strategy resulted in heavy indebtedness. In a nutshell, the heavy industrialization policy of the 1970s, though spawning quite a few successful projects, brought about various evils, including chronic inflation, a worsening of income distribution, an excessive concentration of economic power by conglomerates, and an increase in foreign debt. The second oil crisis revealed all the problems that had accumulated in the economy during the heavy industrialization period. With a negative growth rate, a big increase in the current account deficit, and a hyperinflation of 39 per cent, the year 1980 is considered by some as the worst single year in country's modern economic history.

Stabilization and liberalization period (1981-1990)

In the early 1980s, the Government decided to adopt stabilization and liberalization strategies to cope with economic problems inherited from the 1970s. To promote price stabilization, it cut public spending drastically and controlled monetary growth very tightly. In 1984, for example, the budget, including the salaries of civil servants, was frozen.

The Government also removed various direct and indirect subsidies, including the many tax incentives to heavy industries and price subsidies to grain farmers. As a result, the overall fiscal deficit was reduced dramatically, from 4 per cent of GNP in 1981 to around 1 per cent a few years later. Due to tight monetary and fiscal policies, the inflation rate in the wholesale price index plummeted from about 39 per cent in 1980 to less than 2 per cent in 1985. Stabilization became a solid foundation for structural adjustment.

To overcome structural difficulties, the Government promoted liberalization in various areas of the economy. As mentioned earlier, the first step towards a market economy had already been taken in the mid-1960s when the exchange rate and interest rates were adjusted to market rates. In the 1970s, however, during the period of heavy industralization, the Government maintained a heavy hand in resource allocation. As the economy expanded and grew in complexity, the cost of government intervention in resource allocation rose rapidly. Regulations and protection caused serious imbalances and inefficiencies in the economy. In order to promote competition and enhance the efficiency of the market mechanism, a comprehensive liberalization programme was needed.

Domestically, five government-owned commercial banks were privatized in the early 1980s. Administrative price controls were either reduced or removed completely. Additionally, a new fair trade and anti-monopoly law was enacted to prevent unfair business practices and collusion among firms.

More important reforms were then made in the area of external transactions. Trade reforms involved the active liberalization of the domestic market under a pre-announced schedule. At the same time, the targeting of strategic industries, a tool much utilized to promote heavy industrialization in the 1970s, was discontinued. The industry-specific support and subsidy schemes, involving preferential interest rates and industry-oriented financial facilities, were also phased out in the early 1980s. Instead, industrial policy focused on providing general support for manpower training and investment in research and development (R & D).

Due to these efforts and favourable external conditions, the economy regained its rapid pace of growth and also witnessed unprecedented balance of payment surpluses, not to mention low inflation rates.

The historical performance of the economy is statistically summarized in table 1.

Lessons from experience

Although it would be wrong to compare the Korean experience to that of other developing countries, there are several observations one could make. The first of these, of course, is the reaffirmation of the importance of outward-oriented trade policy. Although this outward-looking strategy is vulnerable to external shocks, it has been proven to be a better option than the inward-looking policies, since the former enables a country to better take advantage of international economic opportunities, to overcome the limitation of the domestic market and also to benefit from the stimulus associated with greater exposure to foreign competition.

Table 1: Indicators of economic performance since 1962

		1962-66	1967-71	1972-76	1977-81	1982-90	1962-90
Growth rate (% per year)	Population	2.70	2.24	1.74	1.55	1.05	1.74
	Labour force	2.84	3.05	4.39	2.41	2.57	3.03
	Real GNP	7.8	9.7	10.1	6.0	10.0	8.7
Per capita GNP ($)		104	210	523	1 546	3 165	-
% of GNP	Investment	15.6	29.4	27.2	32.5	31.3	-
	Saving	8.7	18.8	20.5	26.6	32.4	-
	Export	7.9	14.9	28.6	33.5	37.3	-
	Import	16.4	25.0	34.2	38.9	34.6	-
Current balance ($ billion)[a]		-0.2	-2.7	-4.9	-115.2	25.1	-

Source: National Statistics Office, *Korean Economic Indicators*.

[a] Annual average.

The second lesson might be that of the importance of the role of the market. At the initial stages of development, the Government has a definite role to play in terms of mobilizing domestic and foreign resources for investment, developing infrastructure and providing a proper business climate. But, as the economy grows in size and complexity, excessive Government intervention is not a good substitute for the market mechanism, which is the preferred means of achieving an efficient allocation of resources. The structural imbalances in industries in the late 1970s were caused partly by an arbitrary selection of strategic industries.

The experience of the Republic of Korea further shows that social and political stability is a critical element for economic development.

A fourth lesson might be that Governments of developing countries might do well to devote more resources to education and manpower development. The country's ability to absorb new technology from abroad was quite remarkable precisely because of the prevailing high level of education in the country. Moreover, the Korean experience shows that in the process of economic development it is often easy to neglect the healthy growth of light industries in favour of heavy industries. Industrial strategy, although not specifically discouraging light industries, shifted rather suddenly in favour of heavy and chemical industries in the early 1970s. Under these circumstances, the private sector tended to invest in these new fields, neglecting investment in their traditional sector which by then was badly in need of product quality upgrading.

The latecomers might also find a lesson in the Korean experience as far as small and medium-sized industries are concerned. The importance of the healthy growth of small and medium-sized enterprises for balanced development of the industrial structure cannot be overemphasized. Besides, the promotion of such a sector has important implications for a more equitable distribution of income and also for estaablishing a broader base of middle-income groups.

The country's export-oriented development strategy has partly risen out of particular circumstances, including late development, lack of natural resources, the dependence on foreign trade and constraints on the balance of payments. The mere adoption of this strategy, however, does not explain why it was successfully implemented.

The essential elements necessary and conditions required for a sizable and successful export drive are: (i) commitment by the Government to an export-oriented growth strategy; (ii) direct implementation of the strategy involving a consistent exchange rate, import and export policies; and (iii) political stability to ensure the implementation of these policies over a sustained period.

Finally, it is important that the Government, while capable of setting the stage for economic development, has the cooperation of private industry to make the policies work. The labour force must also do its part. The Korean experience seems to validate this observation and may serve as a reference for other developing countries.

II. CHANGES IN THE WORLD ECONOMIC ENVIRONMENT

The economy of the Republic of Korea recently arrived at its most important turning point in the three decades of its high economic growth. Until the early 1980s, the greatest effort had been devoted at export promotion and production expansion. However, in addition to the Government's forward-growth policy, the favourable international environment also bolstered rapid development. Advanced countries were especially helpful in their lenient attitude towards imports from developing countries entering into their domestic markets. Also, unexpected changes in the international environment such as war in Viet Nam, the construction boom in the Middle East, and the "Three Lows" had a major effect on the country's economic success.

However, since the mid-1980s, a new, previously alien atmosphere, has been emerging in the world economic order. The advanced countries, constantly suffering from deficit spending problems, began voicing the need to curb unilateral penetration of their domestic markets. Regional economic integration and cooperation schemes in Europe, Asia and North America multiplied. Meanwhile, Japan's economic might began to be fully manifested, and the six ASEAN countries gained new economic clout.

Then, as the world entered the 1990s, the negotiations in the Uruguay Round took shape, communist regimes dissolved, and the North American Free Trade Agreement (NAFTA) came into force.

Such developments and others imply that major changes must be made in charting The Republic's economic future. Import barriers in major trading countries, both tariff and non-tariff, will no doubt be reduced. Consequently, the concept of new economic territory, in which a nation's economic scope stretches as far as its influence is effective, will become more important than the geographical concept of national borders. From the standpoint of private firms, a new management network that calls for a global orientation in the production and sale of goods and services will inevitably receive greater attention.

Changes have been made and will continue to be made in developed countries' policies, which have traditionally been designed to protect their own technologies. One possibility is that domestic technologies will receive greater protection than ever before on grounds of intellectual property security.

Environmental protection is another consideration. To be sure, developed countries are now showing signs of restricting trade in the name of environmental protection. The spread of such practices may drastically change the world economic order.

In the midst of these changes, Korea's economic structure must be re-defined. It must be willing to change outdated development strategies and prepare to define its new identity, value and economic philosophy so it can be harmonized into the new world economic order.

First of all, Korea needs to respond more actively to the worldwide attempt to strengthen the multilateral trade system, particularly since the GATT/Uruguay Round negotiations have succeeded. Hence, the on-going liberalization policy of Korea, such as gradual reduction of tariffs and alleviation of non-tariff trade barriers, should continue. Further liberalization of service industries should be pursued simultaneously with improvement of their international competitiveness. And, a gradual market-opening of agricultural products should be carried out without disruptions. However, expanded market opening must be accompanied by structural improvements in all sectors.

Secondly, an economic restructuring should be launched by internationalizing trade-related domestic regulations and practices. Autonomy and internationalization of domestic banking and other financial sectors should be achieved in order to enhance the efficiency of the national economy. The present restrictions on foreign direct investment and other discriminatory practices, such as limitations on land acquisitions and borrowings by foreigners, should be abolished. This will improve the domestic environment for foreign direct investment and consequently encourage the transfer of advanced technologies and domestic competition.

III. "NEW ECONOMY" PLAN IN THE POST-URUGUAY ROUND ERA

During the past few decades, the Korean economy achieved rapid economic growth by combining a well-trained and abundant labour force with relatively cheap foreign capital and technology through efficient government intervention.

However, economic growth since the 1980s has been sluggish due to the deteriorating balance of payments and inflation. The current-account balance reverted to a deficit beginning in 1990, and the consumer price index increased nearly 10 per cent per annum in 1990 and 1991. Furthermore, GNP growth dropped to 4.7 per cent in 1992, showing only a 3.0 per cent growth rate during the second half of 1992 it was only 3.0 per cent, the lowest figure since the first quarter of 1980. Such statistics give cause for serious concern among policymakers and the general public, who fear that the economy has lost the dynamism that once propelled its rapid growth.

Meanwhile, changes in the domestic and international environment have created additional difficulties for the economy, and there is no choice but to develop a new policy framework to sustain economic development. In this context, the Government adopted a "New Economy Plan" in 1993, implemented institutional reforms, and attempted to establish an entirely new pattern of economic behaviour. The plan aims to encourage voluntary participation and creative initiatives by the country's citizens in all economic activities and, via various policy measures, hopes to achieve three basic goals: (i) securing the country's economic growth potential; (ii) expanding its foreign market and strengthening internationalization; and (iii) improving the standards of living.

The economic reforms aim to abolish unnecessary regulations and restrictions limiting economic activities and to reward citizens fairly for their hard work. Institutional reform of the financial sector and administrative regulations are being implemented to ensure fair competition, autonomy, and economic fairness. In addition, a national campaign is being launched to revamp professionalism and high ethical standards among the population, encouraging them to voluntarily participate and actively exercise their creative abilities as economic agents.

Expanding the growth potential

Growth potential will in future be based on the development of the manufacturing sector, and this can be accomplished by an efficient allocation of human resources, advances in technology, expansion of social overhead capital, and development of information telecommunications and software industries.

A critical distinction must be made between concentration of ownership, on the one hand, and business rationalization needed for effective competition in the global market-place, on the other. The latter, which often implies an increase in the scale of business enterprises, is frequently desirable and should be encouraged. The former, by contrast, can become unhealthy and thus needs to be restrained.

In order to alleviate the structural disadvantages of small and medium-sized companies, the Government encourages R & D investment, FDI, changes in lines of business, and strengthened cooperation with large companies.

Additionally, the Government may provide some financial assistance for long-term investment activities necessary for the expansion of basic infrastructure related to technology, such as R & D, along with the training of technicians.

Promotion of industrial structural adjustment

This involves:

- Expanding investments in R&D and new equipment in high-tech industries and rationalizing industries undergoing structural adjustment;
- Developing industry-specific strategic technologies and encouraging knowledge-intensive service industries, such as design and engineering services, which will contribute to developing technology- and knowledge-intensive industries;
- Encouraging large conglomerates to specialize in a narrower range of businesses to become "most competitive" global

enterprises;

- Reforming the industrial policy-making system; that is, close cooperative methods will be used between the private and government sectors to prepare blueprints and strategies for industrial development.

Establishment of rules for fair competition

This involves:

- Reducing the concentration of economic power by:
    - Lowering limits on the size of cross-guarantees on debt repayment and the number of cases of inter-firm equity investment in each of the country's 30 largest conglomerates;
    - Revising the criteria for firms to be designated as "large conglomerates" by considering the number of affiliated companies and the structure of ownership shares, as well as the total volume of assets;
- Innovative management strategy to strengthen competitiveness by
    - Encouraging public stock offerings so as to disperse ownership and reducing the limit of non-voting stock issues from a half to a quarter of the total stock issued;
    - Eliminating the accounting practice of treating interest payments as pecuniary losses and strengthening regulations on provisional payments to improve the financial position of firms;
    - Expanding the range of corporations required to draw up consolidated financial statements to increase transparency in business management.

Promotion of technology development

This involves:

- Supporting the private sector's R&D efforts and expanding personnel and scientific information services to make technology more innovative;

- Making government-funded research institutes highly specialized and task-oriented, and supporting private firms' efforts to initiate joint research with such institutes, universities, and other private firms for more efficient technological development.

- Increasing investments in R&D to 3-4 per cent of GNP by 1998 and efficiently initiating government R&D projects.

Development of the information industry

This involves:

- Upgrading strategic information industries that include subminiature personal computers, multimedia, next-generation switching systems, and technologies, which will improve the country's competitiveness in the near future;

- Accelerating computerization in the public sector by constructing a second-stage national information network and promoting a local information network;

- Constructing an information network for trading and distribution services and supporting the computerization of small-and medium-sized firms.

Development of small- and medium-sized firms

This involves:

- Fostering technical assistance programmes to secure technological capabilities and expanding joint research projects among private firms, universities, and research institutes, while continuously pursuing structural adjustment programmes.

- Encouraging cooperation within the private sector to strengthen ties between large firms and small- and medium-sized ones;

- Assisting local small- and medium-sized firms to take advantage of indigenous specialties, while enhancing the role of local governments;

- Improving, in stages, regulations limiting fair competition, such as "business categories exclusively reserved for small- and medium sized firms", and integrating and simplifying supportive systems to prepare for market opening.

Development of the agricultural and fishery sectors

This involves:

- Changing traditional policies of the agricultural, forestry, and fishery sectors from output-expansionor price-supporting policies to restructuring policies to improve competitiveness of these sectors, and rearranging the priorities of fiscal investments to restructure rural areas;

- Encouraging participation and creative initiatives of associations of producers in the areas of production and distribution;

- Improving the overall living conditions and welfare of the agricultural and fishing sectors.

Reform of vocational education and labour relations

Improvement of the land-use system

Balanced regional development

Expansion of SOC and reform of the distribution system

Efficient use of energy and resources

Promoting internationalization

To keep pace with the internationalization of the economy and to support the globalization of business activities, the Government plans to open the foreign exchange and capital markets further and bring domestic laws, institutions and practices into conformity with accepted international standards. It will endeavour to elevate the country's position in the international economic community by playing a role appropriate to its economic size. For example, active participation in international institutions such as OECD and the United Nations will have greater focus. While participating actively in multilateral negotiations such as the Uruguay Round, the Government also plans to prepare for the regionalization of the world trading system by playing a decidedly responsible role in the Asian-Pacific region.

Efforts will be made to improve the environment for inward FDI by international firms as well as outward FDI by domestic companies. This, analysts argue, can be achieved through the relaxation of burdensome government regulations.

Internationalization of the economy

This involves:

- Increasing the transparency of trade-related policies and regulations, and promoting fair competition by making domestic regulations consistent with international standards.

- Improving the domestic investment environment by abolishing obstacles to foreign investment;

- Implementing measures to strengthen economic competitiveness in conjunction with step-by-step liberalization of the services and agricultural sectors;

- Continually opening markets and improving domestic regulations with a viw to achieving membership of OECD by 1996.

Reforming the international trading system

This involves:

- Actively participating in key multilateral negotiations, such as the Uruguay Round and global environmental negotiations, to ensure the country's vies are properly voiced in the recent efforts to restructure the international trading order;
- Improving the country's international status by resolutely opening markets, internationalizing its domestic economy, and advocating active economic diplomacy.
- Expanding direct investment in the markets of major groupings such as EC and NAFTA, and cautiously making efforts to form a regional economic cooperation grouping that includes the Republic of Korea;
- Maintaining friendly bilateral trade relations with major trading partners, including the United States, Japan, EC and China, and promoting investment and technological cooperation based on such relationships;
- Improving international economic policy by amending administrative systems and investing in training programmes for the provision of experts in international economic policy and international trade.

International competitiveness and international cooperation

This involves:

- Enhancing the country's export capabilities by promoting the production of high quality and high value-added commodities, encouraging the development of domestic brand names, and establishing overseas distribution networks;
- Relaxing existing regulations on overseas investments to promote investment abroad, and encouraging joint ventures with foreign firms;

- Expanding market access in developing countries by increasing financial aid to these countries and by establishing joint investment projects between the government and the private sector.

Enhancing standards of living

The improvement of the quality of life for the country's population calls for solving the housing shortage, strengthening the protection of the environment and nature, and expanding welfare benefits for the socially disadvantaged. Policies prohibiting speculation in housing and real estate will accordingly be strengthened. Although market principles will be followed in respect of housing, the Government will continue to provide a certain amount of assistance through subsidies.

Investments to protect the environment need to be expanded and support for the development of pollution-abatement and control technologies needs to be strengthened.

Once these and other measures are implemented, the growth rate of the economy is expected to increase from 4.7 per cent in 1992 to 7-8 per cent in 1997, and real per capita income from $6,740 to $15,000.

STRATEGIES AND OUTLOOK FOR EXPORT EXPANSION: THE EXPERIENCE OF SINGAPORE

*Kee Jin Ngiam** *and Carole Gim Hun Ng*

The primary objective of this paper is to examine the policy strategies and outlook for the promotion of the export sector in Singapore. Export promotion can be defined as public policy measures which actually or potentially enhance export activity at the company, industry and national level.[1] In the course of fulfiling this objective, we shall examine the general role played by both official and private organizations in promoting exports. The focus on this paper is on identifying the rationale of the Government's involvement, types of activities undertaken and the fiscal incentives provided to promote the export sector. The outlook for the future will also be discussed.

I. ECONOMIC BACKGROUND

Singapore is a small, open and newly industrializing country (NIC); hence, trade is of utmost importance to its economy. A small domestic market coupled with a lack of natural resources has forced it to rely on foreign markets for its economic growth since the colonial days. Chart 1 demonstrates that trade is the very essence of its existence. The fact that trade has consistently been around three times the value of GDP since 1960 further attests to the importance of trade to Singapore.

According to the latest report of GATT, Singapore is the top 17th exporter and 15th importer in world's merchandise trade. It accounted for 1.7 per cent and 1.8 per cent of the world's total exports and imports, respectively. These figures suggest that Singapore has emerged as a significant player in the international market place.

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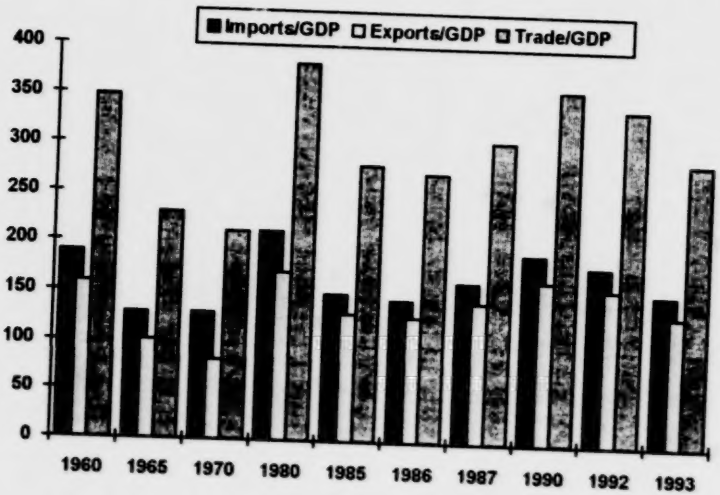
[1] Seringhaus (1990).

Chart I: Singapore's reliance on trade, 1960-1993

(Percentage of GDP, based on data in constant 1985 prices)



Source: Ministry of Trade and Industry, *Economic Survey of Singapore*, various years.

Singapore's success story may be traced to a number of favourable developments. One is the high overall economic performance of the industrialized countries in the early years of its export drive, followed by the Asian countries in recent years. The other is the conscious effort by the Government to use direct investment as a vehicle for export growth. It therefore played a supportive role by ensuring a favourable investment climate through the provision of excellent physical infrastructure, fiscal incentives, and manpower development. Last, but not least, Singapore has always been mindful of the need to maintain its export competitiveness.

With its immense trade dependence, Singapore remains a strong advocate of free trade. The interesting question is: what are the specific measures and incentives used by Singapore to promote its exports? Another intriguing question is: what is the outlook for Singapore's export sector? Have we reached our plateau? Or is there any other possible expansion in this sector? The next section begins with a discussion of the trade patterns of Singapore. Section III examines the general policies and environment that favour production and exports. Section IV deals with the specific measures and incentives adopted by the Government to encourage production for exports. Section V assesses the outlook for Singapore's export expansion and section VI contains some concluding remarks.

II. TRADE PATTERNS OF SINGAPORE

The foreign trade of Singapore has the following characteristics:

- A virtual absence of tariff and non-tariff barriers to trade;
- A high proportion of reexports;
- The predominance of manufactures in exports and imports;
- Consistent trade deficits;
- A high level of foreign participation in trade.

Singapore's economy has always been outward-looking and trade-dependent. In the past two decades, the rapid growth in trade has been due more to growth in the non-entrepôt than the entrepôt sector. This has been largely attributed to the development of a strong manufacturing base which is basically export-oriented. As can be seen from chart 2 and table 1, there has been a generally decreasing trend in the percentage of reexports to total exports.

The United States, Europe, Malaysia and Japan remained Singapore's top four trading partners.[2] As shown in table 2, these countries accounted for over 60 per cent of Singapore's total exports and 69.0 per cent of imports in 1993. Japan remained Singapore's largest supplier, (21.1 per cent of total imports). The United States was the largest export market accounting for 21.1 per cent of Singapore's total exports, followed by Europe (19.4 per cent). The relatively strong dependence on Western industrial markets, particularly the United States, is partly due to the higher proportion of "state of the art" products in its exports, mostly manufactured by foreign TNCs.

The commodity sructure of imports underwent some fundamental changes as well, as may be seen from from table 3. As a proportion of imports, oil (mainly crude oil) showed a steady decline, from 30.0 per cent in 1980 to 10.8 per cent in 1993. The share of manufactures decreased from 21.9 per cent in 1970 to 11.6 per cent in 1993. Machinery and equipment imports rose sharply to become Singapore's top imports, from 22.8 per cent in 1970 to 52.3 per cent in 1993. This was largely due to the increase in demand for radio and television receivers and pans, electronic components and pans, electric generators, and power-generating machines. A significant proportion of these imports was directly reexported to neighboring South-East Asian countries to meet their expanding industrial needs. An important proportion was used as intermediate inputs in the manufacture of commodities for exports, and so were later reexported in this indirect way.[3]

Like imports, the structure of domestic exports has changed significantly (see table 4). The share of oil (mainly petroleum products) in the total fell from 43.2 per cent in 1970 to 19.3 per cent in 1993. In contrast, the share of machinery and equipment rose dramatically in the same period, from 10.8 per cent to 61.1 per cent. This was largely due to the increase in domestic exports of office and data processing machines (including disk drives), radio and television receivers and parts, and electronic components and parts such as integrated circuits. It is interesting to note that domestic exports of disk drives alone reached S$9 billion in 1992, of which some S$5 billion was to the United States.[4] Domestic exports to Japan continued to be dominated by petroleum products, which accounted for nearly 20 per cent of domestic exports to that country in 1992.

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[2] Singapore does not publish data on its trade with Indonesia. According to the Indonesian Central Bureau of Statistics, Indonesia's two-way trade with Singapore was $4.98 billion (S$8.1 billion) in 1992. Its exports to Singapore were $3.31 billion while its imports from Singapore were only $1.67 billion, resulting in a trade surplus of $1.64 billion in Indonesia's favour. However, these statistics excluded a significant amount of barter trade.

[3] See Sandilands and Tan (1986).

The structure of Singapore's entrepôt (or reexport) trade also underwent a dramatic change over the past two decades, as can be from table 5. The share of crude materials (rubber and timber) in the entrepôt trade felt significantly, from 47.9 per cent in 1970 to 3.87 per cent in 1993. This is not surprising, as Singapore's neighbours have been quite successful in shipping their rubber and timber directly to consumers in the United States, Europe and Japan. However, the share of machinery and equipment jumped from 11.1 per cent in 1970 to 53.4 per cent in 1993. This is due to rapid industrialization in the region, especially in the electronics industries, and the intra-industry linkages between companies in Singapore and other countries of the region.

III. GENERAL POLICES THAT FAVOUR EXPORTS

In its 1990/91 Annual Report, the Monetary Authority of Singapore (MAS) revealed that its "strong" exchange rate policy was aimed at "neutralizing foreign inflationary pressure and moderating an overheated economy". Exporters have, however, expressed their displeasure. They regard the strong Singapore dollar as a "culprit" responsible for the erosion of their export competitiveness. The response of MAS was that the strong Singapore dollar had ensured price stability and sustainable economic growth. This, in turn, had prevented sharp increases in wages and other domestic costs, thereby enhancing Singapore's export competitiveness.

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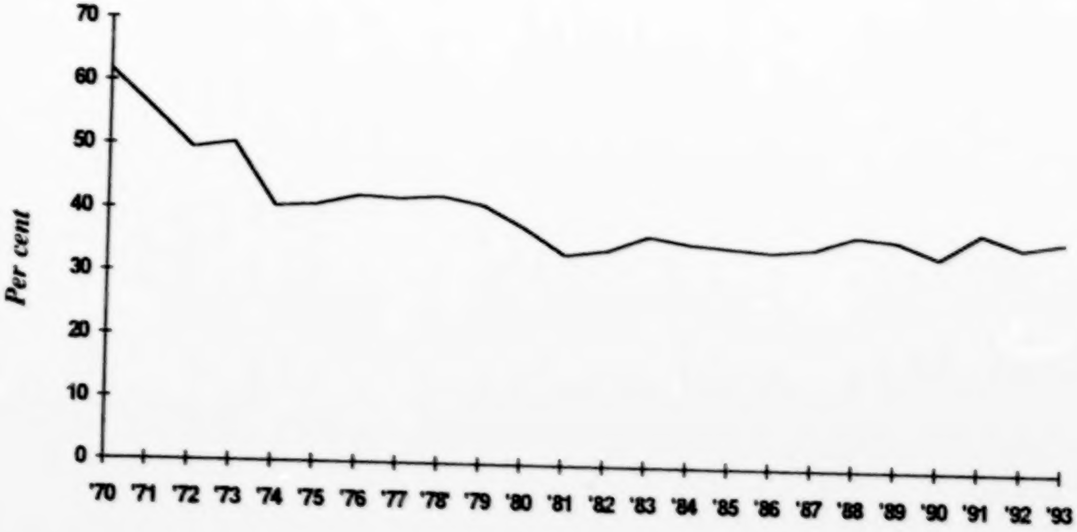
[4] Singapore produces about half of the world's output of disk drives. See *The Straits Times*, 21 September 1993.

Chart 2: Reexports as a percentage of total exports, 1970-1993



Source: Table 1.

Table 1: The foreign trade of Singapore, 1970-1993

(Percentage increase over previous year)

Year	Imports	Domestic exports	Reexports	Total exports	Reexports as percentage of total exports
1970	20.7	9.4	-4.6	0.3	61.7
1971	15.0	29.5	2.5	12.9	55.8
1972	10.1	30.7	1.7	14.5	49.6
1973	31.2	42.3	47.4	44.8	50.5
1974	63.1	90.7	27.7	58.9	40.6
1975	-5.6	-10.4	-9.1	-9.9	40.9
1976	16.3	24.2	32.3	27.5	42.4
1977	13.9	24.5	22.2	23.5	42.0
1978	16.0	113.5	15.7	14.4	42.5
1979	29.5	37.6	30.5	34.	41.2
1980	33.9	411.8	22.8	34.0	37.7
1981	13.4	14.1	-5.2	6.8	33.5
1982	3.4	-1.0	3.2	0.4	34.4
1983	-1.2	0.2	10.7	3.8	36.7
1984	2.7	13.2	7.9	11.2	35.6
1985	-5.4	-1.4	-3.7	-2.3	35.1
1986	-3.9	-1.6	-3.9	-2.4	34.5
1987	23.2	21.9	25.2	23.0	35.2
1988	29.0	26.8	39.2	31.2	37.3
1989	9.8	111.5	8.0	10.2	36.6
1990	13.4	113.6	1.8	9.3	34.1
1991	4.0	5.2	10.5	7.0	38.1
1992	2.9	0.5	3.3	1.4	35.8
1993	17.1	13.7	19.1	15.6	36.9

Source: *Yearbook of Statistics*, various issues; *Economic Survey of Singapore*, 1993.

Table 2: Trade of Singapore with its major trading partners

(Millions of Singapore dollars)

Partner	1970		1980		1993	
	Imports	Exports	Imports	Exports	Imports	Exports
United States	814.7 (10.5)	527.8 (10.2)	7 237.2 (13.7)	5 272.0 (12.2)	19 340.5 (16.5)	21 778.9 (21.1)
Europe*	1 404.7 (18.1)	1 136.7 (22.1)	7 020.1 (13.3)	6 632.8 (15.3)	19 718.0 (16.8)	20 096.3 (19.4)
Malaysia	1 403.6 (18.1)	1 039.7 (20.2)	7 115.6 (13.5)	6 218.0 (14.4)	17 287.2 (14.7)	12 925.4 (12.5)
Japan	1 458.0 (18.8)	361.5 (7.0)	9 162.4 (17.3)	3 338.3 (7.7)	24 753.1 (21.1)	7 856.7 (7.6)
Subtotal	5 081.0 (65.4)	3 065.7 (59.5)	30 535.3 (57.8)	21 461.1 (49.6)	81 098.8 (69.0)	62 657.3 (60.6)
Total trade	7 766.5 (100)	5 152.1 (100)	52 826.2 (100)	43 251.2 (100)	117 529.7 (100)	103 351.0 (100)

Source: *Economic Survey of Singapore, 1993.*

Note: Figures in parentheses are percentages of total imports or exports.

[a] European Union countries plus Switzerland, Sweden and USSR (CIS and Baltic States in 1993).

Table 3: Commodity structure of imports

(Millions of Singapore dollars)

Commodity Group	1970	1980	1992	1993
Oil	1 014.9 (13.5)	14 889.2 (30.0)	14 987.2 (12.8)	14 911.8 (10.8)
Food[a]	950.5 (12.6)	2 915.5 (5.7)	4 837.1 (4.1)	5 033.3 (3.66)
Beverages & tobacco	127.9 (1.7)	276.0 (0.5)	1 651.5 (1.4)	2 074.0 (1.51)
Crude materials[b]	858.9 (11.4)	3 416.9 (6.7)	1 867.4 (1.6)	1 968.1 (1.43)
Animal & vegetable oils[c]	126.0 (1.7)	1 001.0 (1.9)	877.5 (0.7)	833.7 (0.61)
Chemicals[d]	386.9 5.1	2 686.7 (5.2)	8 854.7 (7.5)	9 614.9 (6.99)
Manufactures[e]	1 650.9 (21.9)	7 237.2 (14.1)	15 045.8 (12.8)	16 013.4 (11.6)
Machinery & equipment[f]	1 178.4 (22.8)	15 303.8 (29.8)	56 330.5 (4.9)	71 915.9 (52.3)
Miscellaneous manufactures[g]	538.7 (7.2)	2 951.1 (5.7)	11 718.4 (1.0)	13 414.9 (9.75)
Miscellaneous	160.8 (2.1)	667.4 (1.29)	1 359.4 (1.2)	1 822.7 (1.32)
Total	7 533.8 (100)	51 344.8 (100)	117 529.7 (100)	137 602.8 (100)

Source: *Economic Survey of Singapore 1993.*

Note: Figures in parentheses are percentages of total imports.

[a] Meat, fish, dairy produce, cereals, fruits, vegetables, coffee, spices.
[b] Mainly rubber and wood.
[c] Palm oil and fatty acids.
[d] Medicinal produis and plastics.
[e] Veneer, plywood, paperr, paper board, textile yarn, fabrics, iron and steel.
[f] Industrial machiens, office and data processing machines (includng disk-drives), radio and television receivers and parts, electronic components and parts, road motor vehicles, ships, boats and oil rigs.
[g] Clothing, watches and clocks, optical and photo equipment and musical instruments.

Table 4: Commodity structure of domestic exports

(Millions of Singapore dollars)

Commodity group	1970	1980	1992	1993
Oil	792.2 (43.2)	14 180.2 (55.0)	134.08 (20.2)	14 556.6 (19.3)
Food	105.4 (5.8)	600.6 (2.3)	1 164.9 (1.8)	1 078.0 (1.43)
Beverages & tobacco	11.8 (0.6)	102.6 (0.4)	460.9 (0.7)	519.1 (0.68)
Crude materials	29.9 (1.6)	152.3 (0.6)	456.9 (0.7)	426.5 (0.57)
Animal & vegetable oils	48.8 (2.7)	393.7 (1.5)	583.8 (0.9)	455.8 (60.5)
Chemicals	43.3 (2.4)	572.9 (2.2)	4 174.0 (6.3)	4 464.0 (5.92)
Manufactures	169.9 (9.3)	1 322.7 (5.1)	2 189.9 (3.3)	2 443.4 (3.24)
Machinery & equipment	197.6 (10.8)	6 566.6 (25.4)	38 338.4 (57.8)	46 083.4 (61.1)
Miscellaneous manufactures	144.5 (7.9)	1 886.5 (7.3)	5 235.1 (7.9)	4 986.9 (6.61)
Miscellaneous	288.8 (15.8)	27.1 (0.1)	324.3 (0.5)	380.3 (0.50)
Total	1 832.8 (15.8)	25 805.2 (100)	66 336.8 (100)	75 394 (100)

Source: *Economic Survey of Singapore, 1993.*

Note: Figures in parentheses are percentages of total imports.

Table 5: Major reexports of Singapore

(Millions of Singapore dollars)

Commodity group	1970	1980	1992	1993
Oil	30.4 (1.0)	353.5 (2.3)	101.0 (0.3)	55.1 (0.13)
Food	444.2 (15.2)	1 407.6 (9.0)	1 8211.8 (4.9)	1 831.8 (4.16)
Beverages & tobacco	59.8 (2.0)	54.6 (0.3)	1 508.1 (4.1)	1 870.3 (4.24)
Crude materials	1 400 (47.9)	4 547.7 (29.1)	11 821.4 (4.9)	1 705.9 (3.87)
Animal & vegetable oils	91.4 (3.1)	701.8 (4.5)	162.9 (0.4)	154.3 (0.35)
Chemicals	85.6 (2.9)	845.6 (5.4)	2 557.8 (6.9)	3 198.8 (7.26)
Manufactures	253.2 (8.7)	2 1119.0 (13.5)	4 924.6 (13.3)	5 312.7 (12.1)
Machinery & equipment	323.3 (11.1)	4 522.4 (28.9)	18 600.9 (50.3)	23 557.2 (53.4)
Miscellaneous manufactures	103.4 (3.5)	685.9 (4.4)	4 357.9 (11.8)	4 781.1 (10.85)
Miscellaneous	132.0 (4.5)	408.6 (2.6)	1 157.6 (3.1)	1 612.4 (3.66)
Total	2 922.8 (100)	15 647.1 (100)	37 014.2 (100)	44 079.4 (100)

Source: *Economic Survey of Singapore, 1993.*

Note: Figures in parentheses are percentages of total reexports.

The issue was recently raised as to whether real wage rates should exceed productivity growth. It has often been argued that wage increases should lag behind productivity gains in order to preserve Singapore's international competitiveness, on the grounds that gains not used by wages could provide for capital investment, and thus enhancing export competitiveness. Studies have revealed that if the increase in real wages is held at or below the increase in productivity, the real wage increase and unit labour costs will fall significantly.[5] Consequently, private real investment and consumption, real exports and imports and real GDP will increase. Among many other reasons, the Government has therefore sought to ensure that wage increases do not surpass productivity increases. In order to ensure that there is good coordination where adjustment of wages is concerned, the Government established a tripartite council encompassing the three key sectors of the economy, viz. labour, business and government. This facilitated the dissemination of information and contributed to ensuring that any plans or objectives set by the Government would be well followed.

Singapore believes that foreign investment can be a vital catalyst for rapid economic development through export-oriented industrialization. Efforts have therefore been concentrated on welcoming both manufacturing and servicing establishments which are profitable, provide access to world markets, create jobs with a relatively higher skill content, and contribute to economic and technological progress. The Government, through the Economic Development Board, is prepared to extend all appropriate financial incentives to companies which meet these criteria. Substantial investment incentives have been provided on the grounds that they will have an indirect impact on export performance by encouraging investment in manufacturing. The incentives granted include:

- Creation of industrial institutions (e.g. EDB, DBS, JTC, SISI and NPB);

- The establishment of industrial estates (e.g. Jurong Industrial Estate);

- Tax incentives such as pioneer tax holidays, special investment allowances, warehousing and servicing incentives, international consultancy incentives, and tax concessions for approved foreign loans and royalties;

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[5] See Chen *et. al.* (July 1991).

- Financial assistance schemes such as the Capital Assistance Scheme (CAS) and the Small Industries Finance Scheme (SIFS).

The main justification for attracting foreign private investment is to overcome the scarcity of management and technological know-how. In the case of Singapore, because of the limited domestic market and the apparent difficulties of domestic manufacturers in penetrating export markets, foreign investment is particularly welcomed because of its export orientation. Transnational enterprises bring with them established international markets. The main gain to Singapore lies not only in the increase in income and employment generated, but also in enabling the country within a shorter time span to bridge the technological gap and successfully penetrate export markets.

As Singapore is small and lacking in natural resources, it would be interesting to know why foreigners should be interested in investing in Singapore. According to the Government some of the key attractions that Singapore offers to potential investors are the following:[6]

- Strategic location at the crossroads of international trade routes;
- Stable political and economic climate;
- Sophisticated telecommunications network;
- One of the most efficient and comprehensive transportation systems in the world;
- Well-developed financial infrastructure;
- Skilled and industrious labour force;
- In general, no requirement for local shareholding in business ventures;
- Attractive investment incentives;
- No exchange controls;
- Liberal policy with regard to entry permits;

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[6] See Government Development Assistance Programme, *A Guide for Entrepreneurs*.

- Free-port status except for a few items;
- An efficient public sector.

Singapore is an attractive place for investment as it provides a wide range of industrial facilities. Investors seeking to set up operations can choose from industrial land sites to ready-built single-storey standard factories which provide for quick start-up operations. To this day, Singapore's unique global city environment has been increasingly attracting transnational corporations (TNCs) desirous of using it as a key operational base for supplying and servicing the dynamic Asia-Pacific region. Since 1992, more than 3,000 TNCs from the United States, Japan and Europe, many of which are industry leaders, have set up operations in Singapore. In effect, Singapore is able to foster export links with the rest of the world largely because the foreign investors brought along with them their technology, management and entrepreneurial expertise.

On 27-28 January 1992, at the Fourth ASEAN Summit in Singapore, a framework for the formation of an ASEAN Free Trade Agreement (AFTA) was signed. The objectives of AFTA are three-fold:

- Creation of investment opportunities to secure a continuous inflow of foreign capital,
- Creation of a regional market to make up for sluggish growth in exports to developed country markets; and
- Strengthening the competitiveness of regional industries.

A question that will be on the minds of many, especially now that the Uruguay Round has been concluded, is whether in the drive to freer trade, there is a need to set up economic groupings like AFTA? PM Goh has proposed that for AFTA to be effective strict country-of-origin rules should be drawn up and enforced. He summed up the nation's attitude towards AFTA when he urged the ASEAN members to intensify their economic cooperation and lock in the interest of developed countries into the region to combat rising protectionism in the West. He agreed that ASEAN should not retaliate with a protectionist trading bloc of its own.[7] Because of its small size in terms of bargaining power in the world economy, Singapore cannot afford to take on the world alone. Thus, it is imperative that it take advantage of the leverage offered by AFTA to improve its international position.

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[7] *Straits Times*, October 1993.

IV. SPECIFIC MEASURES AND INCENTIVES FOR EXPORTS

Main institutions and support organizations

Just about two decades ago, Singapore started to industrialize. Today, its efforts have clearly paid off and Singapore is now a booming industrial economy. Its diverse industrial base ranges from the capital-intensive industries such as petroleum refinery, shipbuilding and oil rig construction to the skill-intensive industries such as computers, aircraft components, optical and precision instruments as well as a wide variety of consumer goods. In the course of rapid growth, the economic structure has also been transformed, from that of the entrepôt economy over two decades ago to one that is today based on manufactured exports. Its success can be attributed to the support provided by the following institutions:

Economic Development Board (EDB): The Board was set up in 1961, with a pivotal role as Singapore's leading industrial development agency. Its main responsibilities are to actively promote investment in the manufacturing and service industries. Currently, EDB focuses on attracting investments in high value added manufacturing and services sector in response to global demand trends. Investment promotion activities pursued by EDB will consequently stimulate trade. By varying its promotion activities, the Board has moulded the patterns of trade in Singapore. In addition, it has spawned many institutions which are essential for the success of the industrialization drive, a good example being the Jurong Town Corporation.

Singapore Trade Development Board (TDB): TDB is a national trade promotion agency set up in 1983 to develop the country's international trade. Its promotion of exports of goods and services is made possible partly through its network of overseas offices. It also organizes the participation of Singapore companies in international exhibitions and trade missions. Many developmental efforts have been made to promote trade since it was established. Another significant activity is the trade net that was set up in 1989. The net connects the trading community with all government authorities involved in processing trade documents. This system is aimed not only at enhancing labour productivity, but also at minimizing costs and processing time. Consequently, Singapore's role as a global trading hub has been enhanced.

Monetary Authority of Singapore (MAS): Established under an Act of 1970, MAS is the *de facto* central bank of Singapore. Its main responsibility is to facilitate the formulation and implementation of effective financial and monetary policies. The Authority is also charged with formulating and implementing policies to promote Singapore as a major international financial centre.

Intraco Limited: A trading company founded in 1968, Intraco's original function was to facilitate Singapore's trade with the socialist countries. Now, its main responsibility is to help the Government promote trade through activities such as import, export and third-country trading. The trading company also acts as a buying agent/manufacturer's representative and contractor for shipping, transportation and warehousing services.

Singapore International Chamber of Commerce (SICC): SICC was established in 1837 and is the oldest private sector representative organization in the Republic. Membership is open to companies and individuals of all races and nationalities, so long as they have a place of business in Singapore. The main role of the Chamber is to provide a respected and effective voice for the business community in Singapore. The Chamber is regularly consulted on matters that have a bearing on the interests of the private sector, such as draft legislation and new or revised government rules and regulations. In addition, SICC also constantly monitors, and where appropriate, speaks up on, issues or developments of concern to its members. In all aspects, the Chamber aims to act as a catalyst for improvement of the business and investment environment in Singapore.

Export Credit Insurance Corporation of Singapore Limited (ECIS): ECIS was incorporated in 1975. Its basic objective is the promotion of Singapore's exports through four main facilities: providing credit insurance protection to exporters; actings as guarantor to banks either directly or by the assignment of claims; helping to finance small and medium-sized companies under the Small Industries Finance Scheme; and providing bond issue support facilities to contractors and engineers.

Singapore Institute of Standards and Industrial Research (SISIR): SISIR is an industrial research organization set up in 1969. The function of this technical laboratory complex is to assist industry in its technological and standardization problems. As a member of the International Standards Organization (ISO), it is responsible for the drafting and promulgation of industrial standards. It thus acts as the national organization to promote quality, thereby enhancing the image of Singapore as a producer of quality goods. With regard to its objectives of attaining higher levels of standards and quality, the Standardization and Quality Assurance Division was set up to achieve these goals in four main ways:

- It assists industries to upgrade in the field of quality and reliability. Thus, local exhibitors are able to keep abreast of technological advances and meet the ever increasing quality demands of consumers;

- It promotes quality and thereby enhances Singapore's image as a producer of quality goods.

- It establishes specifications aimed at promoting public safety and health, efficient use of energy and material resources and product quality, reliability and efficiency. Constant reviews made of these specifications enable domestic exports to gain worldwide acceptance.

- It helps local manufacturers and exporters gain comprehensive access to information on overseas requirements in Standards and other technical regulations. This ensures that manufactured goods in Singapore gain continual support worldwide.

Jurong Town Corporation (JTC): JTC was formed in 1968 to develop and manage industrial estates and related facilities. At present, it manages 29 such estates, the largest of which is the 5,407-hectare Jurong industrial estate at the western end of Singapore. Other industrial estates being developed include those at Clementi West, Jalan Bahar, Paya Lebar and Bishan. JTC is also responsible for the provision of key supporting facilities and infrastructure of industries. The Jurong Industrial Port, with cargo unloading facilities, is Singapore's major bulk cargo gateway. The port handles raw materials and finished products for industries in Jurong. The Jurong Marine Base functions as a logistical and supply base for oil and gas explorations in the Asia-Pacific region. Warehousing facilities are available at both places.

Direct export strategies

Among the various government bodies, TDB has occupied the centre-stage in the development of Singapore's trade. Most of the export expansion schemes administered by TDB involve incentives for companies to engage in certain market development activities or aim at attracting certain activities to Singapore. The former is a set of incentives designed primarily to assist companies to expand exports whilst the latter focuses on attracting more trading activities to Singapore, thereby further enhancing the export sector.

Most exporters are conversant with the following incentive schemes aimed at encouraging companies to engage in certain market development activities: the Double Tax Deduction Scheme (DTDS) and Market and Investment Development Assistance (MIDAS).[8]

The DTDS for market development aims to encourage Singapore companies and firms to expand their export market. Under the scheme, double tax deduction is granted for the following activities:

- *Trade fairs and trade missions*: the deduction is designed primarily to encourage Singapore companies to participate in approved overseas trade fairs and trade missions to promote the export of locally-manufactured goods. Companies whose application are approved will be entitled to double tax deduction for expenses incurred in their participation in the approved trade fair or trade mission.

- *Overseas trade offices*: Companies whose trade offices are designated as approved overseas trade offices are entitled to double tax deduction for the expenses incurred in maintaining their offices, subject to limits determined by TDB. Double tax deduction will then be allowed for the initial two years of operation.

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[8] The list of incentives indicated in this paper is non-exhaustive.

- *Overseas market development*: Companies manufacturing or exporting locally manufactured goods are allowed double tax deduction for the expenses incurred in carrying out the overseas marketing campaign, subject to limits determined by TDB.

- *Promotional publications*: This scheme is intended to encourage the production of materials designed for publicity overseas to promote the export of locally manufactured goods. Advertising expenses incurred are allowed double tax deduction.

The MDAS, which is administered by TDB, provides financial assistance to Singapore companies entering the export market. This scheme was designed to encourage and assist companies in Singapore to set up overseas offices, to improve product and package designs, to market new products and services, to participate in trade fairs and exhibitions, to produce promotional brochures and to bid for overseas contracts. The financial assistance provided is on a dollar-for-dollar basis for eligible expenditure, subject to a maximum of S$10,000 per company and per calendar year. As grants are made on a project-by-project basis, companies with multiple export programmes may submit multiple applications. Projects approved under this scheme will not be entitled to double tax deductions.

There are a number of other incentives available under TDB to encourage exporters to engage in certain market development activities. However, in general, they are of only limited practical significance because of the overlap with the two main incentives indicated above, which normally offer greater relief.

In order to attract certain trade-generating or trade-related activities to Singapore, TDB also provides various other incentives. These activities should result in greater use of Singapore's infrastructure and indirectly serve to benefit the financial, transport and communication sectors. The main schemes are:

- *The Approved Oil Trader (AOT) scheme*, which allows approved oil traders to be taxed at 10 per cent on qualifying income derived from certain trading deals.

This incentive is designed to encourage oil trading companies to have their operational bases in Singapore and to make use of Singapore's infrastructure and services.

- *The Approved International Trader (AIT)* which allows traders to enjoy a concessionary tax of 10 per cent on international trading of approved commodities.

  Before the introduction of the above two schemes, most of the oil-trading companies did not book their transactions in Singapore because of the relatively high tax regime. Hence, few had the opportunity to use Singapore's banking and ancillary services. Since the launching of these two schemes and up to 1993, 49 companies have so far been awarded AOT status and 23 international traders have been granted AIT incentives. Both schemes have secured substantial business commitments over the incentive period. The AOTs intend to more than double their existing trade turnover and business spending to reach US$34.4 billion and S$758 million, respectively, by the fifth year of their incentive period. The AITs intend to boost their current turnover five-fold, to reach US$18.3 billion in the fifth year and business spending to S$613 million.

- *Approved International Shipping Enterprises (AIS)*: This scheme was introduced to encourage major international shipowners to locate in Singapore. It was noted that even though Singapore was one of the world's busiest ports, it had few shipowners. The scheme provides tax exemption for AIS resident in Singapore from the operation of their non-Singapore flag ships outside Singapore.

- *Approved International Fair (AIF)*: The objectives of this scheme are to promote the export of Singapore exhibition management services and expertise and increase overseas participation in trade fairs with AIF status. These promotions have borne fruit. The size of

AIFs has grown at an average rate of 30 per cent.

Finally, TDB also launched various schemes to enhance the marketability of Singapore's exports. The Franchise Development Assistance Scheme (FRANDAS) was launched in 1991 to help Singapore companies develop and expand their business through franchising overseas. In addition, the Board also launched the Certification Assistance Scheme (CERTAS) to help local suppliers, especially those in the supporting industries, to obtain ISO 9000 certification. Such certification is increasingly required by international buyers. The Board has also been successful in attracting more original equipment manufacturers to set up international procurement offices (IPOs).

In general, the process of export-oriented industrialization has been the outcome of the dynamic interactions of a combination of factors, such as domestic government policies, foreign direct investment, and a host of other factors such as excellent location and infrastructure.

In addition to the various export expansion schemes administered in the main by TDB, other support organizations have also played a role in promoting exports. For example, the MAS implemented the Export Bills Rediscounting Scheme to provide concessionary short-term financing for exporters with eligible locally manufactured products. Under the scheme, the NIPS rediscounts pre-export and export bills of exchange drawn by banks.[9]

Indirect export strategies

Cluster development plan

In view of the scarce supply of manpower, the SEP (Strategic

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[9] Negotiating banks of the rediscounted bills are allowed to charge a commission of not more than 11.2 per cent per annum above the rediscount rate charged by the Authority. Generally, the criterion for determining the eligibility of the locally manufactured exports for the scheme is economic merit, particularly the contribution to value added. Hence, it tends to discriminate against small enterprises.

Economic Plan)[10] placed much focus on selective industrial policy in the late 1980s, targeted at certain industries and subsidizing them. In other words, the Government can be said to be picking winners. This industrial strategy thus involves grouping related industries into clusters (see table 6). Clusters are based on common core features such as technologies, customers or suppliers' base, or some natural advantage. The basic concept for each cluster is to exploit the potential for the industries to the fullest, and to work towards their becoming key players either within the region or worldwide. With a view to developing selected clusters, various programmes have been designed by the different organizations to, *inter alia*, upgrade individual industries , improve resource efficiency and garner support for promising local companies.

In industries where strong linkages exist, the Government has worked through the respective agencies for each cluster, as shown in table 6. By concentrating on their core capabilities, the cluster industries can have the advantage of greater economies of scale than individual industries and are also more resilient to market conditions affecting a particular industry. Thus, greater efficiency in the use of scarce resources will indirectly aid local exporters to better realize their potential.

Assistance to small and medium-sized enterprises

In the early 1990s, concerted efforts were made to help small and medium-sized enterprises (SMEs) to "look outwards". The importance of SMEs to economic growth in terms of their contribution to production, employment and export earnings is considerable. In general, SMEs have participated actively in exporting, either directly or indirectly, and have contributed to the building of a more even and balanced economic environment for export-oriented growth. The 1989 census of industrial production indicates that in the late 1980s SMEs accounted for virtually 10 per cent of direct exports from Singapore in the manufacturing sector.

SMEs have been playing an increasingly important role in support large industrial enterprises, particularly through subcontracting in an era of globalization. The purpose of subcontracting manufacturing and servicing is to enhance the efficient use of both capital and labour via external economies of scale. In addition, an efficient SME sector in the supply of parts and components can enhance the competitiveness of goods produced by large firms, and thus their export potential.

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[10] The Strategic Economic Plan, formulated by the Economic Planning Committee, was completed in October 1991. This plan attempts to build upon previous plans and it is updated through analysis of major economic factors that affect Singapore's economic development in the medium and long term.

Table 6: Grouping of industries into clusters

Cluster	*Lead agency*	*Other agencies*
Commodity	TDB	EDB,PSA
Shipping	PSA	TDB
Precision engineering	EDB	SISIR
Electronics	EDB	NSTB, SISIR
Information technology	NCB	EDB, TDB
Petroleum and petrochemicals	EDB	TDB,PSA, JTC
Construction	CIDB	URA, EDB, MOL, HDB, PWD
Heavy engineering	EDB	JTC
Finance	MAS	-
Insurance	MAS	-
General supporting industries	EDB	TDB, SISIR
Tourism	STPB	STPB, CAAS, NCB
International hub	EDB	Singapore Telecom
Domestic industries/services	-	-

Source: *Straits Times*, 14 October 1991.

Abbreviations:
CAAS - Civil Aviation Authority of Singapore
CIDB - Construction Industry Development Board
EDB - Economic Development Board
HDB - Housing and Development Board
JTC - Jurong Town Corporation
MAS - Monetary Authority of Singapore
MITA - Ministry of Information and the Arts
MOL - Ministry of Labour
NCB - National Computer Board
NSTB - National Science and Technology Board
PSA - Port of Singapore Authority
PWD - Public Works Development
SISIR - Singapore Institute of Standards and Industrial Research
STPB - Singapore Tourist Promotion Board
TDB - Trade and Development Board
URA - Urban Redevelopment Authority

Growth in the Asia-Pacific region is expected to average 5.5 per cent annually in the 1990s, which is encouraging for the Singapore economy, as such rapid growth will generate many business opportunities. In view of the immense opportunities confronting SMEs, EDB has coordinated a multiagency network to provide them with assistance (see chart 3). The programmes are targeted at "innovative start-up and local enterprises which have the critical mass, capacity, capability and commitment to innovate and grow". Local companies must become more competitive and seek out their niches in the expanding global market. Eventually, they would be able to grow into world-class companies in their own right.

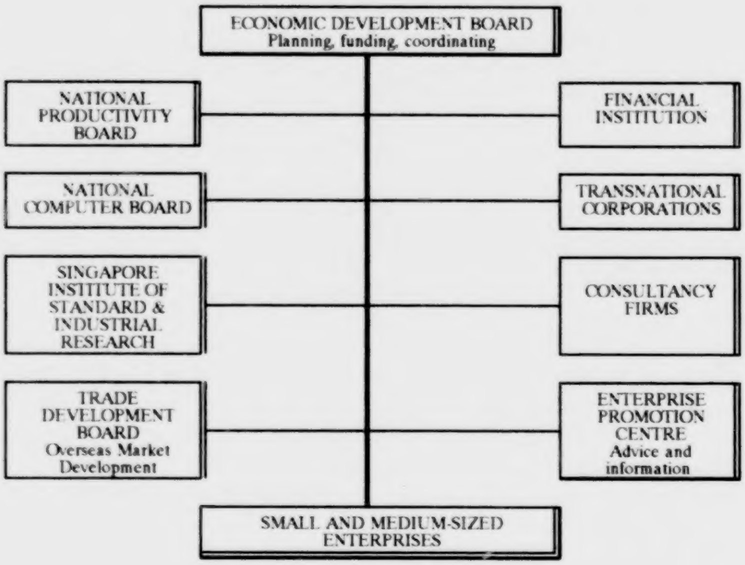
EDB has implemented various assistance schemes in aid of local enterprises, two of which are the Local Enterprise Finance Scheme (LEFS) and the Local Industry Upgrading Programme (LIUP). LEFS was formerly known as the Small Industry Finance Scheme. It is a low-cost, fixed-interest-rate financing programme designed to encourage and assist local enterprises to upgrade, strengthen and expand their operations. As at November 1991, loans disbursed under the scheme amounted to over S$2 billion. LIUP is a tripartite partnership formed by EDB, TNCs and local suppliers. Under the programmes, the TNCs are encouraged to introduce or transfer new products or processes to local suppliers.

The contribution by local enterprises to Singapore's gross domestic product has been increasing steadily. Analysis has shown that local companies that take advantage of EDB's assistance schemes such as the two mentioned above achieved better-than-average productivity. Local enterprises in the manufacturing sector (with less than S$8 million capitalization) benefiting from LEFS recorded value-added per worker of S$38,000, whilst those participating in LIUP achieved S$40,000 per worker.

Operational Headquarters programme

For many TNCs, Singapore serves as a strategic base for their operations in the Asia-Pacific region. EDB accordingly set up the Operational Headquarters (OHQ) programme to encourage this movement whereby TNCs oversee and coordinate the activities of their subsidiaries in the growing Asia-Pacific market. The programme has continued to make significant progress as more TNCs recognize the

Chart 3: Multi-agency network in support of SMEs


ECONOMIC DEVELOPMENT BOARD
Planning, funding, coordinating
NATIONAL PRODUCTIVITY BOARD
FINANCIAL INSTITUTION
NATIONAL COMPUTER BOARD
TRANSNATIONAL CORPORATIONS
SINGAPORE INSTITUTE OF STANDARD & INDUSTRIAL RESEARCH
CONSULTANCY FIRMS
TRADE DEVELOPMENT BOARD
Overseas Market Development
ENTERPRISE PROMOTION CENTRE
Advice and information
SMALL AND MEDIUM-SIZED ENTERPRISES

Source: *International Small Business Journal 1990*, p. 48

advantages offered. With the rapid growth of manufacturing, as well as sales of products to meet the demands of the region, the programme has proven to be a useful vehicle for TNCs to coordinate and support their diverse activities. Their diverse market development, resulting from their regional business expansion, fits in well with Singapore's drive to become Total Business Centre. As remarked by Dr. T. Sekimoto, President of NEC Corporations, such establishment promotes a "Mesh Globalization" strategy. A strategic fit can therefore be identified between the needs of TNCs and Singapore's strengths and capabilities for a long-term fruitful partnership. In the process, Singapore can benefit from the long-term economic and technological spin-offs through the business activities of the TNCs. Clearly, this will indirectly boost the country's export sector. To further enhance its international position, the Government has been fostering teamwork within Singapore to identify business opportunities, either within the country or overseas. In turn, this will bring mutual benefits to all parties.

Regionalization of local companies

According to EDB, local enterprises are increasingly heeding the Government's call to go regional. The Local Enterprise Finance Scheme Overseas (LEFSO), established by and aimed at getting firms to venture outside Singapore, has been well received. Thus far, more than 25 local companies have begun serious discussions with major commercial banks under this new scheme. Launched in November 1992, the scheme provides local companies with low-cost, fixed-interest loans to invest in equipment and industrial facilities for overseas projects. Since 1993, EDB has been working with the Registrar of Companies and Businesses to identify local entrepreneurs at the start-up stage and to help them by providing more information on government development assistance.

Regionalization is not just a matter of expanding into neighbouring countries. Rather, it has an added dimension through regionalization, Singapore operations of TNCs could be devolved on regional headquarters so as to facilitate the distribution of manufacturing activities in the region in accordance with the competitive advantages of the different locations. Hence, rather than "hollowing out"[11] the Singapore economy, regionalization can actually enhance the Republic's international competitive edge. By sourcing low-cost manufacturing in other countries of the region, Singapore can benefit from a higher degree of overall regional competitiveness. A regional network of manufacturing activities would also allow Singapore to focus on its special capabilities and higher value-added activities, thereby ensuring its export competitiveness even with high costs.

V. EXPORT OUTLOOK

From the preceding discussion, a number of possible developments in Singapore's foreign trade can be identified:

(1) As observed from chart 2, the role of entrepôt trade has decreased over the years. It is believed that this trend will continue. In the

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[11] "Hollowing out" is a phenomenon characterized by the displacement of local industries elsewhere, resulting in production and job losses at home.

past, relative decline of the entrepôt trade has been due primarily to the desire of neighbouring countries to carry out trade directly with other countries and to the more rapid growth of domestic exports. These tendencies are likely to persist and it is consenquently probable that the importance of entrepôt trade will continue to decline;

(2) As rising costs hamper Singapore's export competitiveness, it is expected that more companies will go in for more technology-intensive and human capital-intensive exports. With the Government's various incentive programmes geared towards the manufacturing of higher value-added goods, this tendency should be reinforced;

(3) World-class operations require trained manpower and specialist skills. EDB has set up a Manpower Development Division to build a core of skilled workers that is crucial to Singapore's further economic progress and competitiveness. This Division is also responsible for ensuring continued focus on producing skills suitable for high technology industries. As human capital endowment is increasingly augmented via better education and training, this will improve the position of Singapore as an exporter of services. A continuing rising trend in invisible exports can thus be expected.

(4) There has been increasing concern that Singapore's export performance would be hindered by both land and labour constraints. Through regionalization more exports of goods are likely to take place from elsewhere, such as the growth triangle of Suzhou, Wuxi and Bangalore. Exports directly from

Singapore may reach a plateau, while those by Singaporean firms from other countries will rise. It appears to be necessary in this context to redefine "exports" just as one differentiates between GDP and GNP. Perhaps, among other things, exports should include those from overseas production units of home-based firms;

(5) From an international perspective, AFTA should contribute favourably to the export sector of Singapore. In the long run, it can be expected that the elimination of tariffs and non-tariff barriers will promote the division of labour in the ASEAN region. In other words, a highly complementary trade structure would emerge and products would be manufactured in the most rational way possible with the right product being produced at the right place. The result would be to enhance the industrial competitiveness of the member countries. Hence, the exports of Singapore can be further increased if ASEAN turns out to be a highly complementary, self-reliant economic grouping.

VI. CONCLUDING REMARKS

From all angles, it has been observed that effective coordination of governmental bodies is imperative for further improving exports. On the other hand, the importance of local entrepreneurs must not be ignored. A change in attitude among local entrepreneurs and managers, from being inward-oriented to becoming outward-oriented is crucial. A sense of urgency among local entrepreneurs as regards more upgrading of the output would be a further bonus. In addition, closer cooperation and collaboration between large and small companies, both local and foreign are also necessary for greater economic growth.

Thus, in this decade, the Government is seen to be making concerted efforts to assist companies in enhancing Singapore's business capabilities and competence. The benefits to be derived from such factors as proximity to the Asia-Pacific market, cultural understanding of regional neighbours and a sophisticated infrastructure, which enable firms to improve their competitive edge and capitalize on new business opportunities in the region and beyond, are now within grasp. In all, prospects for Singapore's exports are definitely bright.

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LESSONS FROM TRADE POLICY IN TAIWAN PROVINCE OF CHINA

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Despite scarce natural resources and a small land area, Taiwan Province of China has, over the past 40 years, enjoyed high economic growth and successfully transformed itself into one of the newly industrialized economies. This remarkable performance, which many refer to as an "economic miracle", can be attributed largely to the island's dynamic trade.

The Province currently trades with over 160 countries and territories. In 1993, its total external trade reached a record of $162 billion (exports $85 billion and imports $77 billion), with the result that it was the 13th largest trading economy in the world. Trade policy has been constantly adapted to changing domestic and international economic conditions. Different measures were introduced to meet different challenges at various stages.

I. IMPORT SUBSTITUTION POLICY

In the 1950s, the island suffered from a shortage of foreign exchange and serious unemployment. The small manufacturing sector was devoted basically to the production of consumer goods for domestic sale, such as textiles, plywood and shoes. The Government therefore adopted a strong import-substitution policy aimed at protecting domestic producers from foreign competition, and thus conserving the meagre foreign exchange reserves, and encouraging the development of domestic light industries so as to provide more jobs.

Import controls were put in place, accompanied by higher import tariffs and limited access to foreign exchange:

- Strict import licensing was put into effect, requiring

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importers to deposit in advance 100 per cent of the domestic currency equivalent of the requisite foreign exchange;

- The exchange control system was changed: a single rate was replaced by multiple rates, with different rates being applied to different types of imports;
- A tax in the form of a higher exchange rate was applied to imports other than basic raw materials and industrial products financed by United States aid and products imported by government enterprises at controlled prices;
- Nearly half of the import commodities were subject to strict quota restrictions.

At the same time, agricultural products were exported to earn foreign exchange for imports of equipment and industrial materials. Private enterprises were encouraged to import raw materials, semi-finished products, and machinery to manufacture various consumer commodities for the domestic market in place of imports.

II. EXPORT EXPANSION STRATEGY

In the early 1960s, the Government, recognizing the economic bottleneck caused by the limited size of the domestic market, quickly switched to an export promotion strategy:

- Tariffs were reduced and import controls were gradually lifted to facilitate imports of raw materials as well as of capital equipment required by export industries;
- The scheme of export incentives was expanded to include not only rebates of customs duties on imported raw materials but also exemption from business and related stamp taxes; a lower taxable income base; special low-interest loans; direct subsidies; and government-financedexport promotion

facilities and market research activities;

- The Government promulgated the "Statute for the Encouragement of Investment" to improve investment in both export and domestic production. Selected productive enterprises were granted tax relief for a period of five years. Income tax credits were also granted to stockholders in those enterprises which ploughed back profits into the expansion of plant and equipment, mainly for export purposes.

- To attract foreign investments, tax and duty-free export processing zones were established - one each in Kaohsiung, Nantze and Taichung. These zones combined the features of a free-trade zone and an industrial park. Their main objectives were to attract foreign and domestic investment, promote exports, create jobs, and import technology. In the early stages, these zones accommodated mainly labour-intensive industries, with production exclusively for export. In recent years, however, they have increasingly hosted technology-intensive or highly automated industries. Especially dedicated to the latter is the Hsinchu science-based Industrial Park;

- To facilitate exports and imports, export processing zones are provided with adequate public facilities, including a centralized location for administrative offices that deal with investment procedures, company registration, import-export licensing, and other relevant matters in need of government processing. Among other facilities provided inside the processing zones are cargo handling, warehousing, health care, food outlets, and dormitories for women workers. Furthermore, tax incentives are offered, such as exemptions from customs duty on imports and commodity taxes on exports. Companies, if eligible, can also enjoy abatement of the corporate income tax;

- The China External Trade Development Council (CETRA) was founded in 1970 to help promote the island's foreign trade. Jointly sponsored by the Government and private sector industrial and commercial associations, CETRA assists local businessmen and manufacturers in reinforcing their international competitiveness and coping with the challenges they face in the world marketplace. CETRA also undertakes many initiatives to help foreign businesses establish a wider presence in the domestic market. Over the past two decades, it has developed a well-coordinated trade promotion and information network composed of a staff of over 850 trained specialists stationed in the Province and in the 37 branch offices and four Taiwan Trade Centres it maintains abroad. This global network organizes trade exhibitions, furnishes trade-related information, provides marketing and trade promotion services, offers specialized training programmes and assists in improving product design and in establishing business alliances. Trade offices overseas collect trade data, promote sales, facilitate technological cooperation, improve after-sales service, and offer help with financing investment and warehousing facilities. CETRA's activities are currently subsidized by domestic exporters and importers, who are asked by the Government to contribute 0.05 per cent of the total value of their exports and imports to help finance projects presented by CETRA. Prior to 1 July 1993, some 0.0625 per cent of total export receipts was allocated for CETRA subsidy.

As a result of all these measures, exports grew at an annual rate of more than 20 per cent during the 1960s and 1970s.

III. OPEN MARKET POLICY

The policy of encouraging exports led to persistent trade surpluses and the accumulation of foreign exchange reserves, not to mention serious friction with some of the island's trading partners. Moreover, the excess liquidity generated by the surpluses undermined the stability of financial markets and placed heavy upward pressure on price levels, notably with respect to wages and property.

Recognizing the need to revise its export-oriented trade policy, the Government placed equal emphasis on both exports and imports in order to rectify economic imbalances caused by the huge trade surplus. In 1984, it declared that economic liberalization, internationalization and regularization would be its guiding principles in establishing a free, fair and open trading system.

Liberalization

Efforts to liberalize trade stem from the Government's recognition that it must enhance the competitiveness of domestic industries in a highly competitive international market, improve the efficiency of its resource allocation and check the rising tide of protectionism in many markets around the world.

To increase domestic demand for imports and help reduce the trade surplus, the Government has adopted the following measures:

- *Tariff reductions.* In recent years, the customs tariff schedule has been revised repeatedly and the degree and scope of tariff reductions have continuously been increased. The latest tariff reduction, which took place in January 1992, covered 1,908 categories of products. As a result, the average effective duty rate declined to 4.8 per cent in 1991, which is less than half the average of 10.6 percent prevailing in 1979. The Government is planning a further reduction of tariff rates to an average of 3.5 per cent, equivalent to the rates of most other developed countries;

- *Lifting of import controls and opening up of the service* *market.* The Government has also taken concrete steps to improve local market access for foreign goods. Presently, nearly all categories of imports listed in the Commodity Classification Code may be imported without restrictions. The Government has also established a "negative list" of items that require licenses for importation. Items specified in the list will be reviewed periodically and reduced to a minimum in line with GATT rules;

- In the *service sector*, restrictions on foreign bank operations have been greatly eased. In addition, foreign securities firms are allowed to set up branches in the island and participate in share holding and management of local securities firms. Since 1991, the Government has permitted foreign institutional investors to undertake direct investments in the island's stock market;

- *Relaxation of foreign exchange controls.* In 1987, the Government lifted its longstanding controls on foreign exchange, thus facilitating capital inflows and outflows. This measure, together with the sharp appreciation of the NT dollar, has helped increase imports. It has also made possible greater overseas investments, which in the long run will allow domestic firms to link up with technology-based companies in advanced countries. In addition, local investors are now free to invest in foreign stocks and bonds in virtually all foreign capital markets.

Internationalization

The Government aims not only to strengthen economic cooperation and technological exchange with other nations but also to assist friendly developing countries. To this end, Chinese Taipei (as it is there known) has applied for membership of GATT and has already joined APEC. The Government has also established the International Economic Cooperation Development Fund, which is used mainly for assisting developing countries through credit loans technical assistance, and the conduct of training courses, and for promoting trade relations with the beneficiary countries. It has also made contributions to the Asian Development Bank and the European Bank for Reconstruction and Development.

Regularization

In order to expedite trade liberalization and internationalization, a complete and comprehensive Foreign Trade Act was codified and took effect in February 1993. With the completion of these legal procedures, the island not only has created a concrete legal basis for its trade measures but also has established a solid foundation for its future trade development.

In addition to the above measures, the Government has focused its policies on other important ingredients needed for economic development, namely, infrastructure and human resources.

IV. EMPHASIS ON INFRASTRUCTURE

In 1973, the Government announced the 10 major development projects to relieve the shortages of electrical power and transportation facilities faced by the island as a result of the rapid economic growth of the previous decade. These were succeeded by 12 major projects, and subsequently 14, which not only continued with the development of physical infrastructure but also broadened the coverage to include social and cultural development to keep pace with the growing incomes of the populace.

In 1991, the Six-Year Development Plan was launched as a means to promote the islands' modernization. The plan calls for sound management of financial resources, reallocation of land resources, and development of materials and technology so as to provide sufficient electrical power and water supplies, convenient transportation systems, and other necessary infrastructure for continued national development.

V. EFFICIENT DEVELOPMENT AND UTILIZATION OF HUMAN RESOURCES

To upgrade the quality of labour, emphasis has been given to the development of education. In addition, appropriate manpower development policies were adopted, based on the needs at different stages of economic development. For instance, in the 1960s, when the labour supply was in surplus, emphasis was placed on vocational and skill training and the creation of job opportunities. After the industrial foundation had gradually been built up, this was followed by the development of high-quality manpower to raise labour productivity and meet the needs of high-tech industries. All these efforts led to a steady improvement in labour quality and productivity.

VI. TRADE POLICY OUTLOOK

The early stage of the island's economic development was characterized by the growth of light manufacturing industries that took an abundant and low-wage labour force. That advantage, however, has gradually been eroded as average wages rose above those of many other nations and as the currency appreciated sharply against the dollar. Thus, industry must now compete in both domestic and global markets on the basis of higher productivity, better marketing and high-quality products.

The Government has implemented a number of measures to assist industry, including programmes to encourage establishment of proprietary brands, upgrade product quality, enhance the industrial level, and improve the image of Taiwanese products in the world market. For that purpose, the industrial sector is encouraged to introduce advanced technology and form strategic alliances with companies in highly developed countries.

Since Chinese Taipei has formally applied for membership in GATT, and has committed itself to GATT rules, the recent conclusion of the Uruguay Round will naturally have a great influence on its future economic and trade policies.

With the island's farming population remaining high compared with other advanced countries, the Government is expected to readjust its agricultural policy so as to enhance the competitiveness of its agricultural sector and so enable it to better cope with the liberalization of international trade.

As for its service industries, many are still in the growing stage and may suffer short-term setbacks as a consequence of the new rules agreed upon in the Uruguay Round negotiations. The Government has therefore speeded up the improvement of their competitiveness by enacting appropriate laws and promoting investment and research and Ddvelopment. It has also made every effort to improve the protection of intellectual property rights and bring it up to international standards. For instance, a revised copyright law came into force in June 1992, which makes it possible to meet the requirements of the Berne Convention. Extensive amendments were also proposed to the Trademark Law and the Patent Law in order to comply with international norms. And in response to rapid technological developments, the authorities are now drafting laws governing cable television and integrated circuits. Moreover, the Fair Trade Law that went into force in February 1992 also provides for the protection of well-known foreign trademarks not registered in the islandd, thus preventing local unscrupulous enterprises from engaging in unfair trade competition through the use of identical or similar commodity trademarks.

Aside from the export-oriented strategies adopted by the Government, various other explanations have been advanced to account for the island's economic success. The entrepreneurial drive of the Chinese people is commonly mentioned. It is also generally agreed that the Chinese are not only hard working and thrifty but a hardy, selfreliant and above all risk-taking lot. Their capacity for hard work, their frugality (at least until they become wealthy) and high savings rates are often cited to explain their business success, along with their family and kin-group solidarity, respect for education, accumulated commercial acumen, and commercial networks based on trust. Other characteristics, such as interpersonal trustworthiness and a preference for personal rather than institutional ties, also seem to be uniquely important in respect of the neo-Confucian culture.

These may be innate characteristics of a people, but we believe they can be developed, businesswise and management-wise. Given the incentives and some motivations, other peoples will strive for all these ingredients for success to compete and be able to survive and win.

VII. SUMMARY

Being a small island with very limited resources, Taiwan Province of China has had to depend heavily on the expansion of trade for its economic growth and in order to compete in the international market it required a sound trade policy and structural changes in economic activity. Today, foreign trade continues to be the driving force for the island's economic development. Under the rapidly changing environment under which trade is currently being conducted, the Government is expected to make every effort to keep its export products competitive. Policies are now giving more emphasis to: (a) research and development to support industrial upgrading and to develop technology-intensive industry; (b) better and more education and training to improve labour productivity; (c) a sound legal system, as well as fairer and more efficient enforcement of laws and regulations; and (d) more active participation in international affairs.

GROUP II: Countries with recently dynamic export performance

China
Indonesia
Malaysia
Thailand

CHINA'S EXPORT TRADE: EXPERIENCE AND PROSPECTS

*Zhou Xiaiochuan**

I. THE CHANGE OF ECONOMIC DEVELOPMENT STRATEGY AND ITS IMPLICATIONS FOR THE DEVELOPMENT OF TRADE

From 1949 to 1978, with an inward-looking economic development strategy, the striking feature of China's industrial structure was that it was dominated by agriculture and light and heavy industry and that economic activities were confined to the internal economic system. The issue of how to participate in the international division of labour and benefit from it was regarded as secondary; foreign trade was considered merely a means of making up for domestically needed items and selling surplus ouput.

The initial change in the development strategy

Since the end of the 1970s, China has gradually established a policy of striving for the development of exports trade. A major change in development strategy was the emphasis given to foreign trade - on the one hand, expanding export volume to meet the demand for imports to promote the development of the national economy, and on the other hand, participating in the international division of labour to take advantage of China's comparative advantage. This meant that in terms of foreign trade theory, China had changed its position from neglecting comparative advantage to recognizing it and implementing it in practice. The outstanding sign of this change was the decision made by the Chinese Government in 1984 on fully utilizing the resources from both the domestic and the international markets and exploiting both markets for the growth of the national economy. But during this period, China still relied heavily on planning for the development of exports and the foreign exchange earned from exports was only spent on imports under the plan; planned imports were to a great extent a reflection of the import substitution development strategy.

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Subsequent change of development strategy

The outward-oriented development strategy proposed and adopted by the Chinese Government at the end of 1987 marked a new approach to China's economic development strategy. This strategy stressed that special attention must be paid taking advantage of abundant labour resources of low cost and high quality, to develop labour-intensive and labour- and technology-intensive industries in the coastal areas. The economic theory behind this approach was to participate more in international division of labour and to shift to a more outward-looking economy. Instead of relying on planning, the ways to realize the development strategy would be determined by markets according to the principle of maximizing economic benefits.

Adoption of an open economic development strategy

In the end of 1993, after the Chinese Government adopted the objective of building a socialist market-economy system, it proposed the strategic target of developing an open economy, which was another stage in China's economic development strategy. Compared with an outward-looking economy, an open economy lays more emphasis on economic integration with the international community. It requires a liberalized trade regime; however, the link is not limited to the area of trade; rather it is the entire domestic economy which should converge toward the world economy, across the board. The implementation of this strategy will allow China to participate more fully in the international market and international division of labour.

Changes in the trading system and policy

The long years of reform in China has been a process of gradually introducing the market system. At the early stage we understood that the major benefit of the market system was simply to bring into play the initiatives of various competitors and failed to give enough attention to the role of the market mechanism in allocating resources. With continuous probing in China's reform process, our understanding of this role of the market has been deepened. The proposal of establishing a socialist market economic system symbolized that the Government had fully recognized the role of the market in allocating resources and that participation in the international division of labour was indispensable for realizing an optimal allocation of resources.

The changes in, and evolution of, the development strategy involved the reform of the foreign trade system and facilitated the adjustment and improvement of trade policies. In the reform of the foreign trade operational system, we have pursued a path of liberalizing foreign trades (this has long been called delegating foreign trade rights) and with this as the main purpose a series of reform measures have been taken. After 1987, direct management aiming at encouraging foreign trade operators under the foreign trade system and trade promotion policy was replaced by indirect measures to guide the foreign trade enterprises in taking decisions according to market changes. At this stage, exchange rate, export tax refund and related credit policy played a very important role.

Thanks to the above-mentioned environment and conditions, China's foreign trade has undergone significant changes since 1979 and made great achievements.

II. EXPORT SUPPORT: SYSTEM REFORM AND POLICY MEASURES

Foreign trade management system: From direct management to indirect management

Since 1979, the Chinese Government has pursued a policy of encouraging exports. In the middle of the 1980s, along with the establishment of market-oriented reform, the Government's control over the economy shifted from direct mandatory planning to indirect control. Within this new framework and in parallel with the domestic price, finance and taxation reforms, the foreign exchange rate was readjusted, the foreign exchange retention system improved and foreign exchange swap markets established as a supplementary means to regulate the exchange rate. Also an export tax refund system was introduced so as to create favourable financial conditions for foreign trade enterprises and also to realize the abolition of export subsidies. When the foreign trade enterprises have assumed responsibility for profits and losses, foreign trade will be gradually liberalized and the expansion of exports will be supported by credit policy and other measures. This framework basically took shape by 1991 and the foreign trade system began to be regulated by indirect control measures. The termination of the mandatory export plan further improved the system.

Liberalization of foreign trade: A gradual process

Allowing more enterprises to engage in foreign trade

Before 1979, there were only five foreign trade ports in China and monopolized by a dozen national import and export corporations under the Ministry of Foreign Trade (now the Ministry of Foreign Trade and Economic Cooperation - MOFTEC) and their branches in the port cities. After more than 10 years of reform, all the provinces, autonomous regions, and cities with separate planning and special economic zones have now their own foreign trade ports. So far, there are more than 7,000 foreign trade companies in China, 2,000 productive enterprises have foreign trade rights, and 125 scientific institutions and 100 township enterprises are granted the right to do import and export business. In addition, all the 170,000 foreign invested enterprises are entitled to handle foreign trade. Though there are still certain restrictions on domestic enterprises regarding their participation in external trade, these standards and criteria will be gradually relaxed.

Broadening the range of permissible exports

At the beginning of reform, although access to the foreign trade sector by enterprises was liberalized, restrictions remained on the range of commodities for export. This was mainly due to the irrational price system and limitations imposed by the process of price reform. With the rationalization of the price system and the initial formation of the mechanism under which enterprises are responsible for their profits and losses, the control of export products has been gradually relaxed. Now, only 16 export commodities, which are of vital importance to the national economy and the livelihood of the people, and which include large amount of resource-based products, are subject to unified operation by one or several state-designated companies; all other goods in theory can be handled by foreign trade companies (except those banned by relevant international organizations). 114 commodities, including the above-mentioned 16 are subject to plan quotas, voluntary quotas or ordinary licences, and account for about 15 per cent of China's total exports.

The role of the exchange rate

The Chinese Government took note of the role of a rationalized exchange rate in encouraging exports when it initiated reform and a policy of openness, but rationalization of the exchange rate proved to be a rather complicated process. Besides the official rate, there was a parallel rate which could also reflect supply and demand to some extent, namely the rate in the foreign exchange swap market. The dual rate system was a result of the foreign exchange retention system.

From 1979, the central Government allowed state ministries, local governments and enterprises to retain the right (quota) of buying back part of the foreign exchange after export transactions and after selling it to the designated banks at the official rate. This foreign exchange retention system was for the convenience of enterprises. But because enterprises were allowed to sell their rights, a market in transfer prices (foreign exchange swap market price) grew up and a dual exchange rate system emerged. When the exchange rate did not fully reflect the scarcity of foreign exchange, the income from the sale of the foreign exchange quota, resulting from the gap between the two rates, enabled foreign trade enterprises to balance their export accounting position.

Though this practice had played a role in encouraging exports, the defects caused by the dual rate system could not be neglected. In the foreign trade sector, different retention rates could lead to unfair competition and the negative impact on the flow of capital was even more acute. The problem was particularly prominent where the gap between the two rates was great due to fast economic development. Therefore, the reform of 1994 involved the unification of the dual exchange rate system and allowed conditional convertibility on current accounts. On this basis, China will gradually introduce free convertibility of the currency.

Establishing an export tax refund system

The establishment of an export tax refund system is helpful in eliminating the difference between domestic and international prices, to encouraging exports, addressing the distortion of the export commodity structure and motivating enterprises to expand the export of finished products. To this effect, China established an export tax refund system based on internationally accepted practices. This measure has achieved positive results in improving the financial position of exporters and promoting the export of manufactured products. In 1994 China introduced a "value added tax" which would help improve the export tax refund system.

Credit for export

Under the policy of encouraging exports, China provided credit to support exports through export buyer's credit and seller's credit and has introduced a corresponding credit insurance system. The Governmenta also founded the Import and Export Bank of China in 1994, especially to provide financing in support of exports.

Two successful export promotion measures

Support for the export of finished products

In the early years, primary products accounted for a large proportion of total exports. But as China has a big population with a relatively small endowment of natural resources, it could not in the long run depend on the export of primary products. On the other hand, China has an abundant and cheap labour force, a solid foundation of manufacturing industry and a strong scientific and research capacity. The development of labour-intensive and talent-intensive manufacturing industries can provide China with a potential advantage in exports. Based on this conclusion, China has actively encouraged the export of manufactured products, in particular light industrial products, various textiles, general machinery and electronic products. China has adopted the following measures to this effect:

- A higher foreign exchange retention rate for manufactures than for most other exports products;
- The provision of production capacity for the export of finished products;
- Establishment of a special fund by MOFTEC to assist selected enterprises to improve their technological standards. It is estimated that

> in 1992 some 1,300 enterprises in the machinery and electrical sectors benefitted from this fund.

In order to expand exports by making full use of comparative advantage, the Government has given special support to the processing of export products with imported or supplied materials. This is an effective approach to matching foreign material resources and achievements with domestic labour resources and processing capability. Since the beginning of the 1980s, the Government has worked out and formulated a series of policies and measures to encourage and protect the smooth development of processing with imported or supplied materials. These include a wider business scope for the processing enterprises, a preferential foreign exchange retention rate and customs exemption according to the category of product. These efforts appear to have been relatively successful and have greatly contributed to the remarkable increase in China's exports of finished products since 1985.

The top 10 export items in 1993 included: clothing and accessories, textile yarns, fibre and products, footwear, toys, crude oil, travel products and luggage, recorders, radios and assembled audio equipment (whole sets of assembly). These 10 items accounted for 48.3 per cent of total exports.[1] It should be noted that textile products have been China's most important export products in recent years (30 per cent of total exports in 1993). On the other hand, the export value of traditional bulk export products such as crude oil, fish products and corn, have been on the decline.

Encouraging foreign direct investment

Since China adopted the policy of reform and openness, it has actively been seeking out foreign investors. To this end, the Government has provided many tax incentives for foreign investors. At the same time, it guides foreign-invested enterprises and encourages them to export their products. Evidence shows that export by such enterprises have been growing rapidly - by an annual rate of 40-50 per cent in the 1990s. They rose by 45.4 per cent in 1993, reaching a level $25.2 billion and accounting for 27.5 per cent of total exports. There was a direct link between the export performance of these enterprises and the growth of trade in processed products: 84.3 per cent of their exports consisted of processed products.

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[1] See annex for details concerning China's trade in 1993.

Other measures for promoting exports

The strategy of "winning market by quality"

In promoting exports, the Chinese Government attaches great importance to quality. On the basis of the existing system for controlling quality, China has in recent years adopted a series of measures, including emphasizis on the control of quality of export products by legislation and by establishing an export commodity quality licensing system.

In order to meet the requirement of opening further its economy and participating in international competition, China changed its practice of relying on the export of low quality and cheap products and adopted a strategy of "winning market by quality products" at the end of 1980s. The strategy requires foreign trade companies to correctly tackle the relationship between quality and quantity, efficiency and speed, as well as the relationship between the intrinsic quality and the outward appearance of export goods. The export products must be closely scrutinized at all levels, from research, development and design to manufacturing, and from assembly, packaging and storage to transportation, to ensure high quality, greater variety, high grades and high profits.

Market diversification strategy

China's traditional export markets are unduly concentrated and remained so until the late 1980s. In order to correct this situation and expand exports, the Government adopted a market diversification strategy. While maintaining and developing trade with the United States, Japan, EC, Hong Kong and Macao, it strived to penetrate the markets of neighbouring countries, ASEAN and the Middle East and to develop various trading relationships with countries of the former Soviet Union. Through trade exchanges, political and economic links could be strengthened with those countries. To this end, the Government has taken the following measures:

- Establishment of a special export

liability insurance system;
- Provision of discount services for exports to those key markets targeted for development;
- Expansion of sales credit and establishment of purchase credit;
- Establishment of a special fund for market diversification;
- Improvment of the terms of transportation.

Establishment of chambers of commerce and their role

China's foreign trade coordination mechanism was linked to mandatory planning. The liberalization of foreign trade called for a higher standard of coordination to ensure equal competition. Obviously, after shifting from direct management of trade to indirect administration, it is inappropriate for the Government to play the role of a coordinator, which should devolve on chambers of commerce. So far, there are six chambers of commerce for importers and exporters. They also have sub-chambers in different regions dealing with different sectors. Apart from coordinating the prices of import and export products, they also actively participate in promotion activities such as sponsoring market research seminar and providing training. Recently, they have also started to take part in export commodity quota bidding and the organization of big export trade fairs.

Government-sponsored export promotion measures

In order to obtain an equitable and favourable international trade environment and maintain a stable as well as balanced expansion of imports and exports, the Chinese Government has actively participated in multilateral trade negotiations with and initiated bilateral trade negotiations, with positive results.

MOFTEC is the competent government department for the overall management and promotion of foreign trade, while the China Council for the Promotion of International Trade cooperates with the Government in export promotion. Export trade fairs held in China and business and investment fairs abroad are important vehicles for export promotion. Although there are many trade fairs in China, the biannual Guangzhou Export Commodity Fair sponsored by MOFTEC is the largest export fair.

Human resources development

To maintain the expansion of the economy and trade, the Chinese Government attaches importance to human resource development. So far there are four institutions of higher learning in China specializing in education in foreign trade and economic cooperation, and each year over 8,000 graduates from these universities start their careers in the foreign trade sector. In addition, there is an institute of continuous education under MOFTEC, which provides in-service training for the trade professionals. Many junior colleges in some localities also train personnel with special skills in the field of foreign languages, accounting and auditing for foreign trade companies. Initiated by the Human Resources Development Department of MOFTEC, the Import and Export Sales Managers Qualification Examination aims at improving the competence and certifying the qualification of the trade professionals. After more than 10 years of reform and openness, more people have gained first hand-knowledge in conducting outward-oriented economic activities.

III. PROSPECTS FOR CHINA'S FOREIGN TRADE

The 1990s is a crucial period for China's modernization drive. The economy will reach a new stage of development on the basis of optimized structure, improved efficiency and accelerated technological progress. For this purpose, China will continue in its efforts at establishing a socialist market. At the same time, it will pursue the necessary reforms to make its economic system more open. These efforts will help China in exploiting its comparative advantage, in building and developing new, superior industries, in participating more in the international division of labour, and in bringing into play its remarkable potential for economic development.

With the gradual liberalization of China's market, the role of international markets in guiding production and operation will be more effective. Therefore, China's foreign trade has to continuously maintain a higher, but appropriate growth rate. From 1979 to 1992, the average annual growth rate of China's foreign trade has been 16 per cent, which is 7 percentage points higher than growth of GNP. It is expected that in the 1990s foreign trade will grow at a rate 3-5 percentage points higher than that of GNP.

Support to exports through domestic economic development, system reform and policy adjustment

With the rapid change of China's economy from a closed and semi-closed to a more open one, foreign trade has been expanding very quickly and its contribution to economic growth has been constantly increasing. This reflects the changed dependence of the economy on foreign trade and the growing importance of exports in aggregate social demand. In particular, the increased shares of export-led foreign demand in aggregate social demand and of net export growth in net aggregate social demand growth shows that foreign demand is becoming an increasingly important driving force for economic expansion. China's economy has become more and more integrated with the world economic community. In the latter half of the 1990s, the industrial structure of China will be gradually modernized with the introduction of the competition mechanism, the quality of economic development will be greatly improved and China's comprehensive competitiveness will be strengthened. The market orientation of economic operation will also be conducive to the rational allocation and utilization of resources. All these factors form the basis for further exports in 1990s and even beyond 2000.

The system reform and policy adjustments will provide the necessary guarantee for China to expand exports:

- *The improvement of the indirect adjustment system.* **In the** course of moving to a market economy, the role of the market in allocating resources will be strengthened and the role of the indirect adjustment system in guiding trade development will also be underlined. The reform of the exchange system has created the conditions that are indispensable for China to expand exports and participate more in the international division of labour and exchange in accordance with the principle of comparative advantage;

- *Greater access to foreign trade.* A trading system that permits free access by enterprises favours implementation of the market diversification strategy and competition principle. China will gradually achieve free access to foreign trade and has made it a major element of foreign trade reform;

- *Relaxation of import restrictions.* A gradual relaxation of import restrictions will help the expansion of export. The strategic orientation of China in participating actively in the international division of labour in recent years has implied a change in the previous approach of simply stressing the growth of exports. Now China is considering how to achieve integration with the world economy on the basis of export development, and this inevitably brings the liberalization of imports on the agenda. China has since 1991 reduced or eliminated import tariffs five times bringing down the average tariff level to 36.4 per cent (21.9 per cent on a weighted basis). It has also promised to abolish the import licence requirement for 53 categories of commodities in three years. These efforts will strongly support the expansion of exports either in terms of promoting domestic economic development or in terms of clearing trade channels.

- *Protection of intellectual property rights.* Before signing the agreement reached in the Uruguay Round, China made substantial efforts to promote the protection of intellectual property rights. The best demonstration was the signing of the memorandum of understanding on the protection of intellectual property rights between the United States and China. It will help China to import technology and encourage technological invention, and so result in the improvement of the export structure, which will enable China's foreign trade to reach a higher level.

- *Inland development.* With the extension of development from the coastal areas to the inland regions, the production of some competitive commodities is shifting from the coastal regions to the hinterland provinces. Those who have been working in the coastal provinces bring back to their land-locked home towns advanced production and management experience, and all this has a favourable influence on the structure of exports.

External environment: opportunities and challenges

The development of China's exports is closely linked to its exernal environment. In general, world trading and economic conditions in the middle and later half of the 1990s were favourable to China but due to the economic recession in the west, the world economy developed relatively slow in the first half of the 1990s. With the spread of science and technology and national efforts to adjust their economic structures and policies, and with the strengthening of international cooperation in the latter half of the 1990s, the world economy is expected to experience appropriate prosperity, which will create favourable trading conditions for all countries including China.

The agreements reached in the Uruguay Round will no doubt make the world market more open, promote the expansion of world trade and rejuvenate the global economy, to the economic benefit, including higher employment of most countries. China's exports will also stand to gain. An analysis by OECD shows that China will be the biggest gainer from the Uruguay Round, with an annual income increase of $37 billion as from 2002.

Rapid economic growth in the Asia-Pacific region and China's incraesing involvement in economic cooperation, within the region will generate more opportunities and improve conditions for expanding exports. Economic cooperation among the Asia-Pacific nations has advanced rapidly in recent years, constituting a unique system for cooperation in the international division of labour. So far, intra-regional trade accounts for almost one fourth of total world trade and is expected to reach one third by the end of the century. While implementing a policy of market diversification, China has actively developed relations with the Asia-Pacific nations. Its trade with these countries in 1992 accounted for 70 per cent of total trade. Closer economic links among those coutnries will give much impetus to China's foreign trade and economic cooperation.

Rapid industrial adjustment in the world will, by developing two-way trade and investment, provide opportunities for China to host some of the labour- and capital- intensive industries relocated from the developed and newly industrialized countries. This will help China to quickly develop its technology-intensive industries, expedite the upgrading of export production and consolidate a stable basis for export expansion.

Naturally, it should also be noted that, although the development of regional economic groupings in the 1990s can help create trade opportunities, the growth of intra-group trade will exceed that of trade with other countries. This kind of trade diversion will affect China's exports. In the mid- and late 1990s, the economies in transition are likely to compete with China and ASEAN and South America. These challenges call for continuousadjustment of strategies and policies, as well as of reforms in China to ensure its future development.

Annex

TRADE IN 1993: GROWTH AND OUTLOOK

Growth of imports and exports continues; trade deficit reaches $12.2 billion

In 1993, China's trade turnover (imports plus exports) reached $195.7 million, 18.2 per cent up on the previous year, marking another high-growth year after growth in 1991 and 1992 of 17.6 per cent and 22 per cent respectively, and continuing a trend that has prevailed for 11 years, since 1983.

The most salient features of China's foreign trade in 1993 were that export growth was unrestrained, while imports grew over a large range. Exports, at $91.8 billion, were up 8.0 per cent on the previous year and imports, at $104.0 billion, were up 28.9 per cent, leaving a trade gap of $12.2 billion, the first since 1989. Since 1981, China's exports have consistently maintained steady growth, while imports have fluctuated though around an upward trend.

Exports: processed goods and exports generated by investment

On the export side, the trade picture generally was not good with respect to many primary export products (crude oil, synthetic oil, iron and steel, cement, corn) which were attracted into the domestic market by the swift internal economic growth and large-scale investment. This was the principal reason for the 1 per cent decline in these exports (to $43.2 billion).

Within the 8 per cent growth in exports, there were increases for a wide range of processed goods. Exports of such goods exceeded $44.3 billion, up 11.7 per cent; the main items were electro-mechanical products and light fabrics, and especially toys, shoes, travel goods and luggage, exports of which have boomed in recent years. Worthy of special mention is the export performance of firms supported by foreign commercial investment: at the beginning of the 1990s the value of their exports was increasing by 40-50 per cent every year and in 1993 amounted to $25.3 million, up 45.4 per cent, and represented 27.5 per cent of the country's total exports. This is a reflection of large-scale foreign entry into China and the establishment of wholly financed, jointly financed or cooperatively managed enterprises by foreign firms and businessmen. During 1993 China authorized 83,000 foreign-financed enterprises, bringing their total number to 174,000. These enterprises are largely outward-oriented, and their output represents a major part of China's export goods. In fact, there is a direct connection between their export performance and the growth in exports of processed goods noted above: 84.3 per cent of their exports consist of processed goods.

China's 10 leading export items in 1993 were: clothing and accessories; textile yarns, fabrics and products; shoes; toys; crude oil; travel goods and luggage; cassette recorders, radio cassette recorders and hi-fi equipment (including complete sets of components); plastic articles; aquatic and marine products; and corn (see table 1). Together, these accounted for 48.3 per cent of total exports by value. It is worth noting that textile goods and clothing have been China's biggest export in recent years, accounting for 30 per cent of total exports in 1994; traditional export staples - crude oil, aquatic and marine products and corn - all showed a downward trend.

China's export markets are still concentrated in Hong Kong, the United States, Japan and the European Union, which together account for 72.4 per cent of its total exports. Together with six other countries and regions (including the Republic of Korea and the Russian Federation) accounting for a further 12.5 per cent, they make up China's 10 most important export markets (see table 2).

Imports: growth expected in general-trade-regime imports and imports of processed goods; large and growing steel imports

Of China's $104.0 billion worth of imports in 1993, general-trade-regime imports amounted to $38 billion, or 36.6 per cent, and processed items to $36.4 billion, or 35 per cent, an increase respectively of 15.4 per cent and 13.1 per cent over the preceding year. Import growth was greatest (107.4 per cent) for equipment and articles invested in by enterprises supported by foreign commercial investment. The value of such imports was $16.6 billion. This reflects the sudden surge in investment in China in 1993 and the favourable attitude of foreign businessmen to the Chinese market.

The main sources of imports into China are Japan, the European

Union, Taiwan Province, the United States and Hong Kong, which in 1993 accounted for 69.1 per cent of total imports by value. Other major sources are the Republic of Korea, the Russian Federation, Singapore, Australia and Indonesia. Among these, growth in imports from Taiwan Province, the Republic of Korea and Singapore was fastest, up 100 per cent or more over the previous year (see table 3).

The fastest growing import commodity in 1993 was steel, with imports reaching a value of $11 billion, up 176.4 per cent on the previous year, followed by refined petroleum (114.1 per cent) and metal-working machine tools (112.7 per cent). Of the 10 leading commodities, all showed an increase in imports over the previous year, except fertilizer, where there was a large decline. It should be noted that the substantial growth in imports of metal-working machine tools and rubber and plastic processing machinery reflects the increasing technological transformation of Chinese enterprises and expanded output of higher-grade textiles and light industrial products. The 10 most important import items together accounted for 30.9 per cent of total imports (see table 4).

Distribution of trading areas: Guangdong occupies the high ground; trade concentrated in the coastal provinces and cities of the south-east

China's foreign trading areas - using the natural divisions of provinces and cities - are concentrated in the coastal provinces and cities of the south-east. The imports of Guangdong, Shanghai and Fujian alone in 1993 amounted to $102.9 billion, accounting for 52.6 per cent of the entire country's trade. In 1993, imports through the provinces and cities of Guangdong, Shanghai, Fujian, Jiangsu, Liaoning, Shandong, Zhejiang, Tianjin, Beijing and Heilongjiang accounted for 74.4 per cent of total trade (see table 5).

In exports there has been a change in the top 10 places: Hebei and Hubei have supplanted Beijing and Heilongjiang, and the order has changed. The value of exports through the 10 leading provinces, cities or zones was $72.4 billion, or 78.9 per cent of the country's total exports (see table 6).

Some basic points about reform and the prospects for trade

The growth in China's foreign trade in 1993 took place against a background of extensive liberalization and continuing reform of the foreign trading system. China has already clearly stated its objective in reforming its system of foreign trade: to strive to adapt to current international economic regulations. Among the reforms, the influence of liberalized management is the most far-reaching: China is gradually easing the restrictions on entry into the import and export trade (by the end of 1993, it had 7,010 businesses of varying description engaged in foreign commerce and 172,000 others supported by foreign commercial investment); it has substantially reduced the list of planned products; at the same time, it has introduced reforms in the system of allocation, such as quotas and permits, and is experimenting with the introduction of such fair competitive methods of distribution as tendering and auctions. These reforms all impact impetus to the development of foreign trade.

As regards trade prospects for 1994 and beyond, it should be noted that the reform of the exchange rate system was implemented early in the year, merging the twin-track exchange rates and reforming the rate-setting mechanism while easing restrictions on the use of foreign exchange for imports. To judge from the first two months of 1994, exchange rates are stable, imports and exports are both growing, and the reforms are already past the initial adjustment phase and must be pronounced a success. The new exchange-rate mechanism should be of real benefit to trade. In addition, reforms in matters related to the management of foreign trade, such as taxation, credit, tax reimbursements on exports, and the handling of quotas and permits are oriented towards the creation of a fair competitive environment for all businesses engaging in foreign trade, and should benefit the further development of such trade.

An analysis of trade in 1993 reveals that China's exports still enjoy a potential comparative advantage in terms of plentiful labour and low costs, and that exports of light textiles and assembled electronic products show enormous vitality, indicating that there is still room for further growth. The raw materials and agricultural products - crude oil, coal, corn, etc. - that were originally staple exports, however, show a consistently declining trend. Businesses supported by foreign commercial investment are already the principal driving force behind growth in imports and exports, and by making full use of China's comparative advantage and aggressively opening up external markets, they have had an extremely important effect on them. There are still improvements to

be made to the structure of China's exports, however, turnin
high-value-added goods into the mainstays of its exports. At present, th
prevailing situation as regards trade in processed goods and raw material
has placed limits on the continuing development of China's export trade
making a breakthrough in the next few years unlikely. At the same time
China's persistently excessive reliance on a handful of major market
limits the scope for export growth. It should be noted that the newl
industrialized Asian States (regions) are becoming daily more dynamic i
China's import and export trade and that trade is swiftly increasing i
value, causing China's import and export markets to show a certai
tendency towards diversification. But the vast markets in Africa, Eas
Asia and Latin America have yet to be opened up.

On the import side, China potentially is a huge market. Foreig
goods, whether they be raw materials for industry, electrical products o
consumer goods, are highly competitive on the Chinese market becaus
of their high grade and good quality. There is a direct proportion
relationship between growth in the Chinese economy and of imports. Th
growth or decline of the increasingly prominent trade in processed good
in particular, affects the speed at which the national economy develop
Hence the Chinese import market looks consistently good. But whethe
China can expand its imports depends chiefly on whether it can pay fo
foreign exchange; in other words, the scale of its imports is consistentl
determined by the hard-currency earning capacity of its exports. In th
context of further reforms of the foreign trade system, an exchange-rat
mechanism based on market demand will gradually be introduced so tha
in future the key factors limiting imports will be the exchange rate, impo
tariff levels, and the value for money of imported goods. Under th
aggregate effects and constraints of these factors, it is estimated tha
China's imports will continue their upward trend over the long term, bu
will not be able to break away from the export constraint and burgeo
rapidly. In the next two years, therefore, boosted by the requirements o
internal economic growth, imports may continue to expand rapidly; at th
same time, China's exports are likely to show a steady upward trend s
that in a year or two there may still be a small trade deficit.

Table 1: China's leading exports in 1993

Commodity group	Export value ($ billion)	Share of total exports (Per cent)	Increase over 1992 (Per cent)
Clothing & accessories	184.4	20.1	10.3
Textile yarns and textile products	8.7	9.5	1.3
Shoes	5.1	5.5	23.7
Toys	2.6	2.9	10.9
Crude oil	2.4	2.6	-13.1
Travel goods & luggage	1.7	1.9	17.1
Cassettes, radio cassettes, recorders, hi-fi (including component kits)	1.5	1.6	10.6
Plastic articles	1.4	1.5	22.7
Aquatic and marine products	1.3	1.5	-8.2
Corn (maize)	1.2	1.3	-2.8

Table 2: China's leading export markets in 1993

Market	Value ($ billion)	Share of total exports (Per cent)
Hong Kong	22.1	24.0
United States	17.0	18.5
Japan	15.8	17.2
European Union	11.7	12.7
Republic of Korea	2.9	3.1
Russian Federation	2.7	2.9
Singapore	2.2	2.4
Taiwan Province	1.5	1.6
Canada	1.2	1.3
Australia	1.1	1.3
Total 10 markets	78.0	84.9

Table 3: Major countries of origin of imports into China in 1993

Country (region)	Import value ($ billion)	Share of total imports (Per cent)	Increase over 1993 (Per cent)
Japan	23.3	22.4	69.9
European Union	14.4	13.9	-
Taiwan Province	12.9	12.4	120.4
United States	10.7	10.3	-
Hong Kong	10.5	10.1	-
Republic of Korea	5.4	5.2	104.3
Russian Federation	5.0	4.8	41.4
Singapore	2.7	2.5	114
Australia	2.0	11.9	16.6
Indonesia	1.5	1.4	-6.6
Total, 10 importers	88.2	84.9	

Table 4: Major imports in 1993

Commodity	Value ($ billion)	Share of total imports (Per cent)	Increase over 1992 (Per cent)
Steel	11.1	10.7	176.4
Cars and chassis	3.6	3.4	47.0
Refined petroleum	4.0	3.9	114.1
Textile machinery	3.6	3.4	39.7
Crude oil	2.3	2.2	34.7
Aircraft	1.9	1.9	98.5
Metal-working machine tools	1.9	1.9	112.7
Synthetic fibres and fibre products	1.6	1.6	7.6
Rubber and plastic processing machinery	1.6	1.5	64.3
Fertilizer	1.5	1.4	-50.9
Total, 10 commodities	32.1	30.9	

Table 5: Leading provinces and cities (regions) by value of imports in 1993

Region	Import value ($ billion)	Share of total imports (Per cent)
Guangdong	78.4	4.0
Shanghai	14.5	7.4
Fujian	10.0	5.1
Jiangsn	9.3	4.7
Liaoning	8.6	4.4
Shandong	7.3	3.7
Zhejiang	6.7	3.4
Tianjin	3.8	2.0
Beijing	3.7	1.9
Heilongjiang	3.3	1.7
Total, 10 regions	145.7	74.4

Table 6: Leading provinces and cities (regions) by value of exports in 1993

Region	Export value ($ billion)	Share of total exports (Per cent)
Guangdong	37.4	40.8
Shanghai	6.6	7.2
Liaoning	5.2	5.6
Fujian	5.2	5.6
Jiangsu	4.7	5.1
Zhejiang	4.3	4.7
Shandong	4.2	4.6
Tianjin	2.1	2.2
Hebei	1.7	1.8
Hubei	1.2	1.3
Total, 10 regions	72.4	78.9

EXPANSION OF THE INDONESIAN EXPORT SECTOR: PAST EXPERIENCE AND CURRENT PROSPECTS

Rizal Ramli[*]

Part I

REFORM OF THE INDONESIAN ECONOMY

Introduction

Following the sharp decline in oil revenues in the first half of the 1980s the Government of Indonesia embarked on a series of comprehensive structural reforms, known domestically as "deregulation policies", which had a distinctly free market orientation. The reforms attempt to restructure the Indonesian economy so a to reduce the dependence on oil (wich accounted for 80 per cent of export earnings and 70 per cent of budget revenue) improve the competitiveness of domestic production and increase the overall efficiency of the economy. They consist primarily of a series of deregulation measures in the areas of finance, investment and trade.

Faced with this bleak situation, strong stabilization measures were adopted. These included austere fiscal and monetary measures such as the rephasing of some 48 large development projects, a freeze on civil service salaries and two major currency devaluations, in 1983 and 1986. More important, economic planners acknowledged that the era had passed when they could count on regular and sizable increases in world oil prices, and that achieving sufficiently high growth in future would require more effective marshalling of financial resources from all sources. A more balanced and diversified economic structure that enabled state revenues and the economy to get off the oil-price roller coaster was accorded high importance.

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I. FINANCIAL AND INVESTMENT REFORMS

The financial reforms were design to increase the intermediation and efficiency of domestic financial institutions. A series of reforms was introduced in June 1983, including the deregulation of interest rates, the elimination of credit ceilings and easier entry into the financial sector by private domestic and foreign banks. Further reforms in 1988 have promoted a large increase in the number of new banks and bank branches, as well as improved availability or diversification of banking products.

Reforms in 1987 and 1988 have also promoted the development of capital markets and other non-bank financial institutions. A series of policy measures was introduced to encourage the development of a capital market for publicly traded stocks and bonds. The new regulations authorize the creation of an over-the-counter market, permit foreigners to purchase shares, and regulate the types of securities, who may issue them, and who may purchase them.

Within two years since the introduction of reforms in capital markets in December 1987, both the number of companies going public and the market capitalization of the Jakarta Stock Exchange increased significantly. The Indonesian capital market became one of the emerging markets in the Asia-Pacific region, attracting inflows of foreign investment capital.

The real and financial sector reforms were accompanied by the adoption of a realistic exchange rate. Since March 1983, a more actively managed floating exchange rate has been pursued to maintain export competitiveness and adjust the level of imports.

Reforms have also been introduced in the area of investment licensing and foreign direct investment. The long list of licensing and investment regulations has been shortened. Sectors that were previously closed to new investment are now open to both domestic and foreign investors. The response to improvement in the investment regulatory framework has been highly positive - approvals of foreign investments continued to increase, while planned expansion by domestic investors has surpassed the level of approvals in the previous year.

II. TRADE REFORMS

The trade reforms began in 1985 and were designed to move the trade regime away from a system based on import licence protection and towards one based on simplified and lower tariffs. Through the various reform packages, the latest introduced in 1993, the trade reforms have achieved significant results. Non-tariff barriers now affect only 13 per cent of total imports; tariff ceilings were lowered from 60 per cent to 40 per cent (for 95 per cent of all items) and the number of tariff items has been reduced. The unweighted average tariff rate has been reduced from 37 per cent prior to 1985 to 20 per cent after the May 1990 trade reform (see table 1).

The objective of the trade reforms was to increase trade by opening the economy to international trade and financial flows. It was to be achieved through the reduction of barriers to trade and the liberalization of capital flows.

In the area of trade policy, the Government implemented a series tariff reforms, from March 1985 to 1990, and introduced policy measures to provide internationally-priced inputs to exporters (a duty-drawn scheme). The major policy packages aimed at a comprehensive reform of the trade regime since March 1985 are outlined below:

March 1985

The tariff ceiling was reduced from 225 per cent to 60 per cent, with rates for most products ranging from 5 per cent to 35 per cent. The number of tariff levels was also reduced, from 25 to 11. For the first six months of 1986, it is estimated that over 70 per cent of total imports by value entered Indonesia at 0-5 per cent tariff (including imports that had a tariff greater than 5 per cent but were exempt under the 6 May export scheme).

April 1985

Reorganization of customs ports and shipping operations: the administration of custom and imports was contracted out to SGS, a Swiss company.

Table 1: Changes in the tariff schedule[a]

	1986	1987	1988	1989	1990	1991	1992
Average tariff rate							
Unweighted	37	27	24	27	22	20	20
Weighted by:							
Import value	22	13	15	12	11	10	9
Domestic production	29	19	18	19	17	15	13
Index of tariff dispersion[b]	62	108	90	93	89	83	83
Average effective rate[c]	..	4.9	5.1	5.4	6.2	5.4	4.8

Source: World Bank.

[a] Including surcharges.

[b] Coefficient of variation (standard deviation from the mean) of unweighted average tariff plus surcharge.

[c] Revenue from import duties in relation to non-oil imports (fiscal year).

May 1986

A duty drawn-back scheme was introduced in an attempt to provide internationally-priced inputs to exporters. A further sequence of reforms shifted the majority of products away from binding licence restrictions toward tariff-only protection. These measures essentially signalled the Government's intention to shift to tariffs as the primary instrument of import policy on the grounds that:

- Tariffs provide a more transparent form of protection, which is expected to prevent domestic suppliers from increasing prices above world prices by more than the tariff rate;
- Non-tariff barriers create the potential for abuse and can lead to protracted negotiations among the parties concerned;
- Tariffs are easier to adjust so as to rationalize the structure of protection, and then also contribute to budgetary revenue.

The major impact of those policies was to remove import licence restrictions from a majority of items, as well as remove some industrial licensing restrictions. Moreover, the share of value added protected by restrictive import licensing in the manufacturing sector declined vary rapidly.

The distinctive characteristic of the above series of foreign trade policies is their gradual movement towards freeing the exchange of goods from government regulations. Indonesia effectively liberalized imports to a degree unprecedented in its history. By reducing tariffs to a range of 5 to 20 per cent, the policy reforms minimized the use of selective criteria for allowing imports. The opening up of foreign trade was accompanied by a further opening up of foreign investment; restrictions on foreign exchange dealings and on capital movements had already been removed.

A remarkable reduction in the barriers which protected import substitutes since the new era of declining oil prices constituted the central element of foreign trade policy. The deregulation policies pursued since 1985 induced a drastic change in comparative advantage by modifying both the profile of effective protection and average level. Government is refraining from direct intervention in productive activities and adopting a neutral stance in economic policy.

To foster positive relations in international trade, Indonesia has progressively adopted policies to bring its trade practices into line with the GATT. Dismantling protective practices has been a major achievement and is viewed prerequisite for increasing export opportunities.

Results of the trade reforms

The trade reforms have succeeded in establishing a more diverse and more competitive economy. Trade and financial deregulation, along with competitive exchanges rates, have provided strong incentives to export. There is also an increasing importance of non-oil activities in the Indonesian economy. In 1987, for the first time in modern Indonesian history, non-oil exports surpassed those of oil and gas and experienced double-digit growth. Over the past five years, Indonesia's manufactured exports have grown at an average of 20 per cent annually, reaching $17.2 billion in 1992, and accounting for 50 per cent of total exports (tables 2 and 4). The share of oil/LNG exports in total merchandise exports has declined from about 82 per cent in fiscal year 1981/82 to only 39.8 per cent in fiscal year 1989/90. The share of non-oil manufacturing in GDP has increased from about 8.4 per cent to 14.3 per cent during the same period (table 5).

One measure of Indonesia's success in building its export base is the sharp rise in the importance of industrial exports in export earnings after a 10-year period. In 1992, exports of manufactured goods rose 29 per cent, despite slow growth in major export markets, especially in the United States (table 3 and 4).

In 1992, Indonesia's total merchandise exports rose by 16.8 per cent to $34.0 billion, while merchandise imports registered a more modest expansion of 5.4 per cent ($27.3 billion), resulting in a trade surplus of $6.7 billion. Indonesia now has a growing range of manufactured goods, from wood products, light manufactures to electronic goods (table 4).

Table 2: Indonesian exports 1990-1992

(Billions of dollars

Product	1990	1991	1992
Non-petroleum products	14.6	18.2	23.3
Oil & gas	11.0	10.9	10.7
TOTAL	25.7	29.1	34.0

Source: Central Bureau of Statistics.

Table 3: Leading export markets

(Value of exports in millions of dollars)

Country	1990	1991	1992
Japan	10 923	10 767	10 761
United States	3 368	3 509	4 419
Singapore	1 902	2 410	3 314
Republic of Korea	1 363	1 948	2 083
China	834	1 991	1 396
Taiwan Province of China	849	1 056	1 279
Netherlands	723	838	1 100
Germany	751	908	978
United Kingdom	517	654	844
Hong Kong	617	703	881
Others	3 830	4 360	6 912
TOTAL	25 675	29 142	33 967

Source: Central Bureau of Statistics.

Table 4: Leading non-oil/gas export commodities

(Millions of dollars)

Commodity	1990		1991		1992	
	Value	%	Value	%	Value	%
Plywood	2 726	18.7	2 871	15.7	3 230	13.9
Garment	1 657	11.4	2 290	12.6	3 189	13.7
Textile	917	6.3	1 298	7.1	2 095	9.0
Footwear	570	3.9	994	5.5	1 324	5.7
Rubber	817	5.6	907	5.0	1 168	5.0
Other wood products	488	3.4	693	3.8	950	4.1
Other textiles	344	2.4	487	2.7	778	3.3
Shrimps	672	4.6	759	4.2	757	3.2
Copper ore	374	2.6	499	2.7	731	3.1
Coffee	369	2.5	361	2.0	217	0.9
Other non-petroleum	5 671	38.8	7 088	38.7	8 855	38.0
TOTAL[a]	14 604	100.0	18 247	100.0	23 296	100.0

Source: Central Bureau of Statistics.

[a] Excluding oil and gas.

Table 5: Major economic indicators, pre- and post-reforms

Indicator	1984	1992
Oil output/GDP (%)	21.5	13.0
Non-oil manufacturing/GDP (%)	8.9	17.5
Oil exports/total exports (%)	73.2	31.4
Non-oil manufacturing exports/total exports (%)	18.2	51.7
Oil revenue/domestic government revenue (%)	65.2	32.3
Foreign investment approvals ($ billion)	1.3	10.3
Bank deposits (Rp trillion)	15.5	53.3
Bank credits (Rp trillion)	20.0	63.2
No. of companies listed on Jakarta Stock Exchange	24	164
Market capitalization of Jakarta Stock Exchange ($ billion)	0.3	12.0

Source: Central Bureau of Statistics, Bank of Indonesia, Jakarta Stock Exchange.

Many of Indonesia's industrial exports, including processed rubber, food and oils, are derived from agricultural products. In addition, the country exports a wide variety of agricultural products, essentially in their primary state.

Despite some problems resulting mainly from the banking sector deregulation in 1988 and 1989, the economic reforms have been generally successful. The primary objective of sustained economic growth and stability has been largely achieved. Even in the difficult years between 1984 and 1987, real GDP growth averaged 5 per cent per annum. The growth rate picked up further in the ensuing years. From 1984 to 1992, exports grew by 5.4 per cent per annum, with the surge in non-oil/gas exports more than offsetting the drop in oil and gas exports. Inflation was kept at a tolerable level of 7.9 per cent during 1984-1987, although it accelerated to 9.9 per cent in 1990 and 1991. More important, the dependence of the economy on oil and gas has, as planned, declined sharply. The share of oil exports in total exports decreased from 73.2 per cent in 1984 to 31.4 in 1992, and its share in GDP from 21.5 per cent to 13.0 per cent. Concurrently, the share of non-oil/gas manufacturing in total exports rose from 18.2 per cent to 51.7 per cent, and the share in GDP from 8.9 per cent to 17.5 per cent. The structure of Government revenue is also more balanced than before, with the share of domestic revenue accounted for by oil/gas declining from 65.6 per cent to 32.3 per cent from 1984 to 1992 (see table 5).

Measures to attract foreign investment have also been successful. Annual approvals for foreign investment increased from $10.3 billion in 1992, with a further $5.5 billion committed in the first nine months of 1993. At the end of 1992, approved cumulative foreign investment amounted to $63 billion, more than triple the end 1984 level. The country has also successfully secured a continuous inflow of foreign funds by implementing economic reforms and repaying its debt on time.

III. CURRENT PROSPECTS

There remains much for the Government to do in order to improve in the investment and export sectors. Non-tariff barriers have been reduced sharply (see table 1), but further abolition of monopolies and the injection of more foreign and domestic competition by removing import barriers and restrictions on investment are still needed. However, it will be necessary to overcome the resistance of vested interests. The Government also has to strike a balance between improving economic efficiency, on the one hand, and promoting higher value-added industries, on the other. The cumbersome customs and investment approval procedures need to be further streamlined. While import procedures have been simplified greatly over the last decade, there is still room for further improvement.

Preserving international competitiveness is also important. Indonesia's major attractiveness has so far been its large resource base and cheap labour costs. The difference appears substantial compared with other ASEAN countries, but it is smaller when labour productivity is taken into account. Although a large pool of surplus labour rules out any substantial wage pressure in the near future, productivity improvement should be advocated so as to enhance Indonesia's competitiveness. More higher-skilled technical workers are also needed, to cope with the rising demand resulting from the more mature industrial structure. While the Government appears determined to revamp the educational system with a view to accommodating future manpower requirements, manpower development programmes usually take some time to bear fruit. A certain degree of mismatch in the labour market is thus inevitable in the near term. Other areas in need of attention include the provision of a sound commercial legal system that is free of corruption and a good physical infrastructure.

Real GDP growth is expected to average 6.2 per cent during REPELITA VI (1994/95-1999/2000) and to be more balanced than in the past, with both external and domestic demand making significant contributions. A higher trend rate of growth will be possible in the next few years as the cumulative impact of 10 years of reforms is felt.

Competition for funds from other developing countries will probably force the Government to continue its economic reforms. While other developing countries, such as China, India and Viet Nam, will continue to compete for investment funds, Indonesia's attractiveness to foreign investors will be enhanced, or at least maintained, by the Government's continued economic reforms and deregulation. Its substantially lower labour costs will continue to attract companies from the developed economies, desirous of relocating their more labour-intensive production processes. Hence, provided the Government can continue to improve the physical and social infrastructure, foreign direct investment is expected to recover from the current setback in the coming years.

A sustained increase in consumption resulting from higher employment and rising incomes will also support more rapid growth. While exports are likely to remain robust, net external demand will play a reduced role as imports, currently weak, revive with more buoyant domestic demand.

Besides respectable growth, the economy will also experience further structural change. While the agricultural and oil sectors will retain their present size, their relative importance will be reduced by the continued growth of manufacturing and to a lesser extent the services sector.

Although probably slower than in the past two years, the manufacturing sector will still grow faster than the economy as a whole, thanks to an expected continuous inflow of FDI. At the same time, there will be a further deepening and widening of the industrial structure, although its extent will depend on the Government's overall economic reform measures, specific industrial policies and manpower development strategy. Diversification away from the present bias towards a few low value-added industries such as wood processing and textiles will be essential to sustaining manufacturing expansion. How to promote higher value-added activities and achieve beneficial linkages among industries through efficiency improvement rather than artificial import barriers will be a major challenge.

Prospects for export expansion

Export growth (goods and services) will average 9.5-10 per cent per annum during 1993-1998, comparable to the 10.1 per cent average growth recorded during 1988-1992. Non-oil/gas exports will remain the main source of growth, but their growth will level off to some degree during 1994-1996, following the exceptionally high rate (over 20 per cent) achieved in each of those three years. While the expected recovery, albeit gentle, of the industrialized economies should boost demand, the rapid growth in the past few years despite the sluggish economies of the overseas markets suggests that productive capacity and relative competitiveness are also important determinants. In this respect, reduced investment during 1991-1993 and the relatively more stable rupiah may also exert some downward pressures on the growth of non-oil/gas exports in the coming one to two years. The expected revival in investment should contribute to a renewed strong growth of non-oil/gas exports in 1996-1998. The Government had also decided to devalue the rupiah faster starting in 1994 (from 2.3 per cent in 1993 to 6 per cent in 1994) in the face of slow down in non-oil/gas exports, in order to promote their revival.

Product and market diversification are vital in sustaining future growth. The present over-reliance on textiles and processed wood makes the country very vulnerable to fluctuations in overseas demand for these products. Rising environmental concerns can also affect the export prospects for some of these products. Further economic deregulation to attract foreign investors into other manufacturing industries is particularly important in diversifying the product mix. As regards diversification, the recent increase in exports to the ASEAN and other Asian countries other than the traditional markets is an encouraging sign.

Prospect for oil/gas exports depend largely on the highly volatile international oil prices. While increasing local consumption will reduce the volume of crude oil exports, the effect will be partly offset by the increasing production and export of natural gas. Increased refining capacity, which will make possible exports of higher value-added petroleum products, should also help to sustain the growth in oil/gas exports.

Indonesia's exports of services comprise mainly tourism, receipts from which have more than tripled over the past five years. Given the country's huge area, beautiful scenery and unique culture, the tourism sector has a promising future provided that the Government continues to upgrade the supporting infrastructure and strengthen its promotion efforts. Services exports will also depend partly on the growth of the shipping industry, which could permit more of the country's trade to be carried out using its own shipping lines.

In addition to the volume of trade, export and import prices will also affect the trade balance. The abundance of cheap labour should continue to ensure that the rise in non-oil/gas export prices is moderate. Continued import deregulation should also help to keep export prices low by procuring cheaper inputs. Monitoring by the Government to maintain

Indonesia's competitiveness, probably by adjusting the exchange rate, should also prevent non-oil/export prices from rising rapidly.

Concurrently with the merchandise trade surplus, the invisibles deficit will continue to rise in the coming five years. As previously mentioned, the expected surge in tourist earnings will not be enough to cover the net outflow of transport and business services payments. As regards net factor income, while remittances from Indonesian workers abroad should rise rapidly, their relative importance is small. Of greater importance is the expected rise in net outflows resulting from higher interest as a result of the continued increase in outstanding external debt and cumulated infow of foreign investment. While the Government's continuing commitment to curb external borrowing and rely rather on domestic savings to finance investment may help to contain the interest burden, the shift from government borrowing to private commercial loans will raise average interest rates. Furthermore, the current strength of the Japanese yen will increase the country's debt burden, since over 40 per cent of the country's external debt is estimated to be denominated in that currency. Moreover, the Government and private sector are expected to make increasing use of more sophisticated financial instruments such as swaps and hedges to reduce their vulnerability to exchange rate and interest rate fluctuations.

Part II

THE INSTITUTIONAL DIMENSIONS OF INDONESIAN EXPORT EXPANSION: THE ROLE OF THE NATIONAL AGENCY FOR EXPORT DEVELOPMENT (NAFED)

In addition to the series of reforms and other measures reviewed above, the important role of the National Agency for Export Development (NAFED) in providing the institutional support for export promotion and expansion needs to be underlined.

Established in 1971, NAFED is a directorate of the Ministry of Trade. Its primary role is to assist Indonesian businessmen seeking access to new international markets. For over two decades, NAFED has been helping Indonesian manufacturers to find buyers for their products, ranging from bulk natural resources and agricultural commodities to sophisticated technical equipment and unique handicraft products.

The agency provides a comprehensive range of services. These include studies to identify potential markets, advice on export procedures and government regulations, and help in organizing fairs, missions and exhibits. To facilitate data collection and distribution, the agency has also been developing a computerized Trade Information Network System (TINS), on line with several regional offices and some international data banks. This system is now being extended to cover more regional offices and Indonesian Trade Promotion Centres abroad.

NAFED's office in Jakarta employs more than 300 specialists, experts in the marketing of export products and commercial trade services. They provide a wide range of support, offered both through the Jakarta base and the Indonesian Trade Promotion Centres in 13 key cities abroad. All of the services are free of charge.

To support its various export programmes, NAFED has a number of important centres and networks of activities such as:

- *Indonesian Trade Promotion Centre (ITPC)*

  To boost the country's export activities, a network of promotional offices in major business cities throughout the world has been established.

- *Centre for Trade Information and Market Analysis (CENTIMA)*

  Established in 1987, CENTIMA provides information to the business world. In the fiscal year 1992/1993 (April-March), for example, it received 3,214 overseas inquiries concerning the establishmen of business relationships. It provides information on exporter and importer profiles, commodity profiles, pricing profiles, market profiles, and trade regulations.

  Internationally, CENTIMA liaises with the International Trade Centre UNCTAD/GATT in Geneva, the World Trade Centre (WTO) in Toronto, the MAID System in London, and ITPC's offices. In Indonesia, terminals have been established in seven provincial offices of the Ministry of Trade: Medan, Palembank, Bandung, Semarang, Surabaya, Denpasar, and

Ujung Pandang.

- *Buyer Reception Desk*

NAFED's Buyer Reception Desk (BRD) organizes programmes for visiting overseas buyers. It arranges hotel bookings, welcomes arriving buyers at the airport, escorts them to factories and arranges meetings with Indonesian suppliers.

- *Other supporting programmes*

NAFED has also maintained cooperation with the Export Support Board (DPE) enabling small scale-industries to obtain credit form public banks, and cooperates actively with more than 30 business associations in Indonesia.

- *Export promotion*

NAFED is reponsible for trade promotion abroad and participates in various world trade fairs. For example, in the fiscal year 1992/93, it participated in 54 such fairs which took place in Western Europe, Asia, the United States, the Middle East, Eastern Europe and Australia. In addition, it successfully organized the "SOLO EXHIBITION" in Jeddah, Saudi Arabia, "World EXPO '92" in Seville, Spain, and participated in the "3rd Beijing International Fair", in Beijing, China.

- *Improving exporter skills*

Upgrading the skill of exporters has been one of the main programmes prepared by NAFED, designed not only to help improving their ability in handling a host of export procedures but also to increase their knowledge of international markets and ability.

In 1992/93, NAFED organized various programmes, such as comprehensive marketing services, seminars, and workshops. The comprehensive marketing services dealt with competing successfully in international markets, organizing export promotion, securing access to world markets, as well as guiding exporters in their problem of export development.

- *Export Forum*

  To help exporters and producers obtain up-to-date and accurate information about the marketing of Indonesia's export commodities abroad, NAFED organized the 2nd Export Forum in conjunction with the 7th National Merchandise and Commodity Show "RESOURCE INDONESIA '92".

- *Trade missions*

  NAFED organized various trade missions abroad to boost trade relations between Indonesia and foreign countries.

Such activities of NAFED provided support for a high rate of export expansion in the past. However, the country's external economic environment is changing rapidly as a consequence of the conclusion of the Uruguay Round and the presence of stronger and new competitors in export markets such as China, South Asian countries and Viet Nam. Consequently, NAFED needs to redefine its functions and sharpen the focus of its programme.

It is also considered important for NAFED to have greater institutional independence in order to streamline and increase the effectiveness of its programmes. In this respect greater participation in its activities by the private sector and business associations would certainly increase its effectiveness.

MALAYSIA'S STRATEGIES FOR EXPORT SECTOR DEVELOPMENT AND MARKETING: PAST EXPERIENCE AND CURRENT PROSPECTS

Ong Hong Cheong[*]

I. ECONOMIC BACKGROUND AND CONTEXT

Postwar economic and trade performance

Economic development based on exports had its early beginnings in Malaysia with mining in the mid-19th Century followed by rubber production at the turn of the century.

Upon independence, the economy of the Federation of Malaya (as it was prior to the formation formation of Malaysia in 1963), the economy was highly dependent on rubber and tin, which accounted for 70 per cent of total export earnings, 28 per cent of government revenue and 30 per cent of employment. The economic structure was clearly lopsided and vulnerable to the fortunes of these two primary commodities.

Since then, over a generation of more than 30 years, Malaysia has made the successful transformation from a dual primary-commodity exporting economy to become a value-added exporter and a rapidly industrializing economy, widely regarded as one among the few dynamic Asian economies.

In 1993, the Malaysian economy grew by 8.5 per cent, which was the sixth consecutive year of high growth in the 8-9 per cent range, and this result was achieved in an framework of relative price stability (see annex I). The domestic inflation rate in 1993 was 3.6 per cent. Per capita income was $3,200, which should place Malaysia, according to World Bank criteria, among the upper middle-income economies. In terms of the purchasing power of the currency, per capita income exceeded $8,000. This economic success is largely attributable to the strategy of export-led

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growth, described sometimes by foreign analysts as FDI-led growth or more generally as private sector-led growth. From the perspective of economic development and international competitiveness, the following six achievements may be noted:

(a) With exports of $47.1 billion in 1993 and imports of $45.6 billion, Malaysia ranked as the world's 19th largest exporter and importer, with total trade representing 144 per cent of GDP;

(b) As can be seen from annex II, manufactures accounted for 74.3 per cent of total exports in 1993, and primary commodities for 24.7 per cent; this contrasts favourably and sharply with the export structure in 1970, when the respective shares were 13.4 per cent and 85.4 per cent;

(c) Intra-industry trade in manufactured exports, reflecting largely the operations of TNCs, increased from 17.0 per cent in 1985 to 68.8 per cent in 1993 (see annex III);

(d) Exports of electronic components alone accounted for 15.4 per cent of total exports in 1993 and exports of electrical appliances, equipment and machinery (SITC codes 71-76 and 778) for 26.7 per cent, while exports of primary rubber and tin together had shrunk from 53 per cent of total exports in 1970 to 2.1 per cent;

(e) Malaysia has become the world's largest producer and exporter of rubber gloves, catheters and rubber thread; second largest exporter of room airconditioners; the third largest exporter of semi-conductors, including microprocessors; and a leading producer of audio-visual equipment; and

(f) The *World Competitiveness Report 1993*, published by the World Economic Forum, ranks Malaysia as the fourth most competitive among industrializing countries, based on its criteria of domestic economic strength, internationalization, government, finance, infrastructure, management, science and technology, and people (see annex IV).

Based on available 1989 data, Malaysian exports had a revealed comparative advantage in 25 export categories, which together accounted for 75 per cent of total exports.

Government development objectives and overall strategy

Malaysia's unique set of development objectives and philosophy have been influenced as much by past economic performance as the lessons drawn from external shocks over the past three decades, as well as by its own internal vulnerability; the 1969 ethnic conflict was both a historic event and a development watershed.

Six five-year development plans, including the current Sixth Malaysia Plan 1991-1995 (which falls within the framework of the Second Outline Perspective Plan 1991-2000) redound with the same primary development objectives, giving primacy to national unity and social restructuring. The New Economic Policy (now called the New Development Policy) was first enunciated in the Second Malaysia Plan 1971-1975, declaring that "national unity is the overriding objective of development", which can be best achieved through a two-pronged strategy of eradicating poverty and correcting the imbalance of ethnic identification with economic function, i.e. by correcting the imbalance in income distribution, employment and ownership and control of wealth.

This entails, in particular, the creation of a Bumiputera Commercial and Industrial Community, taking cognizance of "the diversities of Malaysians .... ethnic, linguistic, cultural and religious as well as regional .... so that a harmonious, tolerant and dynamic society could be progressively created. Aside from sociopolitical and cultural considerations, continued social and political stability as well as the efficient management of the economy are factors crucial to the realization of its goals and objectives". The wisdom of this development philosophy is now more profoundly appreciated, not least because foreign investors assert that political stability is the number one reason for investing in Malaysia.

The New Development Policy (NDP) is to set the pace for Malaysia to become:

- an industrial-oriented economy by the year 2000 with manufacturing accounting for about 37 per cent of GDP (see annex V); and

- a fully-developed nation by the year 2020, a development process better known as "Vision 2020".

To quote:

> "...The NDP will be directed towards achieving a balanced, broad-based and internationally competitive economy while increasing opportunities for Malaysians to enhance their income and standard of living so as to reduce economic imbalances. The Government will continue with its pragmatic and flexible approach in the management of the economy so as to provide a favourable environment for growth to be achieved through high levels of investments and exports. Efforts to enhance the contribution of the private sector will be intensified through the continued implementation of the liberal policy towards private investment and by expanding public sector investment in infrastructure and human resource development as well as enhancing the technology base so as to enlarge the capacity for growth. In line with the above thrusts, specific strategies for industry, agriculture and services will be emphasized. The industrial sector will continue to spearhead the growth of the economy. Hence, future policy thrust will be to strengthen the manufacturing base and diversify the exports of manufactured products...".[1]

In short, peace and prosperity for Malaysia will be private-sector-led and the growth determinants are new investments, human resource development, new technology, higher manufacturing value-added, and expanding manufactured exports. The role of the Government is that of a facilitator, a complete shift from its strong interventionist role in the 1970s and its laissez-faire attitude in the 1960s.

This facilitator role is to strengthen the country's "structural competitiveness" by improving physical infrastructure, promoting closer exporter-supplier relations within the country, maintaining continuous policy dialogue with the private sector and formulating effective policies for export growth.

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[1] *Malaysia: The Second Outline Perspective Plan, 1991-2000*, p. 131.

II. STRATEGIES FOR EXPORT EXPANSION: AN EVALUATION

Policy framework for developing internationally competitive exports

As shown in table 1, exports in the 1990s are expected to grow annually by 12.4 per cent, slightly outpacing the projected import growth of 11.8 per cent. More importantly, manufactured exports are targeted to grow annually by 16.0 per cent and manufacturing to contribute 3.3 percentage points of the annual 7 per cent growth rate in order to realize the development objectives of an industry-oriented economy.

The thrust will be on value added in both resource-based and non-resource-based products to ensure that exports remain internationally competitive. Enlarging Malaysia's niche in traditional and non-traditional markets will be a crucial factor, requiring the development of closer diplomatic and economic ties. The liberalization of investment regulations under the Promotion of Investments Act, 1986, is arguably the most important measure in export promotion as, based on MIDA's data on approved foreign investments, FDI rose from $M 7.7 billion in 1980-1986 to $M 73.0 billion in 1987-1993, an extraordinary 10-fold increase. Currently host to over 3,000 TNCs, Malaysia offers a very comprehensive and attractive package of incentives and facilities targeted at both the TNCs and small and medium-scale industries (SMIs).

The Government has categorically stated, as reported in the relevant GATT *Trade Policy Review*, that the exchange rate is not used as an instrument to influence trade. Although the recent appreciation of some major currencies had the effect of improving the competitiveness of Malaysian exports the ringgit freely floats against a composite basket of currencies of Malaysia's major trading partners. Curbing domestic inflation is the most important objective of monetary policy and consequently there is a natural aversion to imported inflation caused by a depreciating currency. According to a GATT study, however, the real effective exchange rate of the ringgit had fallen by 22 per cent from 1980 to 1992, with the greater decline occurring after the Plaza Accord of September 1985 and coinciding with the liberalization of the investment regulations in 1986. By comparison, the decline in the nominal ringgit/dollar rate was 17.5 per cent over the 12-year period and vis-à-vis the yen it was over 90 per cent.

Table 1: Target growth performance for exports, 1991-2000

(Percentage)

	OPP_2 target growth rate 1991-2000	OPP_1 actual growth rate 1970-1990
GDP	7.0	6.7
of which Manufactures	10.5	10.3
Exports	12.4	14.7
of which Manufactures	12.6	24.0
Imports	11.8	15.7

Source: *Malaysia: The Second Outline Perspective Plan, 1991-2000.*

Measures and incentives to encourage production for export

Liberalization of investment climate

It was the shock of the severe 1985-1986 recession, accompanied by a global collapse of commodity prices, that compelled a dramatic shift in development thinking. The investment climate was substantially liberalized with the passage of the Promotion of Investments Act, 1986, giving special emphasis to manufacturing production for export. While welcoming joint ventures in manufacturing, the Government pursues a liberal policy on foreign and domestic investment, summarized as follows:

Equity. No equity condition is imposed on manufacturing projects involving the export of 80 per cent or more of output. A foreign investor also can have 100 per cent equity ownership for a project of at least $M 50 million or 50 per cent value-added, if the products do not compete with local manufactures; majority equity ownership for high-technology projects or for priority products; and up to 30 per cent foreign equity for projects involving the export of less than 20 per cent of output;

Major investment incentives. These include the *Pioneer Status* incentive granting 100 per cent tax relief for five years for projects deemed to be of national importance and characterized by heavy capital investment, high technology and extensive domestic linkages; the *Reinvestment Allowance* of 40 per cent capital expenditure incurred on plant expansion, modernization, upgrading and product diversification; and the *Investments Tax Allowance* of 60 per cent of qualifying expenditure to be set off against 70 per cent of statutory income, with 30 per cent of income taxed at prevailing company tax rates;

Incentives for small-scale companies. Pioneer status, reinvestment allowance of 50 per cent, full exemption from customs duty on imported raw materials, components, machinery and equipment;

Incentives for operational headquarters. Concessionary tax on management fees, interest and royalty income for 5-10 years. Tax exemption on dividend income for 10 years;

Other incentives There are allowances for industrial building, industrial adjustment, and storage, treatment and disposal of toxic and hazardous waste.

Provision of industrial infrastructure

Foreign investors can locate their manufacturing plants in industrial estates, free zones, aand licensed manufacturing warehouses and have access to modern transportation and telecommunications facilities as well as adequate energy and water supplies. There are 175 industrial estates, with a total area of 16,000 hectares, to be increased by 60 per cent by the year 2000. Under the Sixth Malaysia Plan, 1991-1995, the Government has allocated $6.4 billion ($M 17.2 billion), representing 30 per cent of total development expenditure, for infrastructure upgrading and expansion. New industrial estates will have, in addition to the basic facilities of water, power and telecommunication, support services such as laboratory testing, R&D, toxic waste disposal and skills training centres.

Fostering entrepreneurship

The Government provides and channels special low interest funds and guaranteed soft loans to specialized development finance institutions, which on-lend to business enterprises, in particular small and mediumscale industries (SMIs). These include the New Entrepreneurs Fund ($M 350 million), Small and Medium-Scale Industry Promotion Programme OECF Fund ($M 280 million), ASEAN-Japan Development Fund ($M 1 billion), Industrial Adjustment Fund ($M 500 million) and Industrial Technical Assistance Fund ($M 50 million).

Measures and incentives to enhance export capabilities

Technology upgrading and skill enhancement are recognized as strategic measures to boost higher-value added exports in an increasingly competitive global trading environment. Measures taken so far include the following:

> *Malaysian Technology Development Corporation*. This is a joint venture company between the Government and the private sector set up with the primary purpose of commercialing R&D, acting as venture partner for SMIs, providing seed capital, soft capital and consultancy services, and assisting in technology transfer, providing guarantees and promoting entrepreneurs;
>
> *The Penang Skills Development Centre*. TNCs operating in the free zone in Penang cooperate in running the Penang Skills Development Centre by providing technical training, manufacturing and management skills as well as education to the TNCs' labourforce in the free zone. Part-time diplomas, degrees and postgraduate courses are offered;
>
> *Other training institutes*. Two other major training institutions are the National Productivity Corporation and the German-Malaysian Institute. The first aims at improving manufacturing productivity and the quality of industrial research, while the latter is for advanced skills training in production technology and industrial electronics;
>
> *Tripartite Vendor Development Programme*. Under the active sponsorship of the Ministry of International Trade and Industry (MITI), this programme assists SMIs to become suppliers and manufacturers of components, machinery and other equipment to the TNCs which, as anchor companies, provide technical assistance, while financial institutions provide soft loans.

Measures and incentives to strengthen export marketing and distribution

To reach overseas markets, the following measures have been taken:

- *Strategic gateway for exports.* The Ministry of International Trade and Industry or MITI has set up in Rotterdam an off-shore centre called the Malaysia Trade and Distribution Centre[2] as the strategic gateway to Europe for Malaysian manufactured exports. The centre offers facilities for warehousing, repacking, distribution, and exhibitions, as well as a trade directory with on-line accessibility to Malaysian exporters and European buyers;

- *Bilateral payment arrangements.* To promote trade with countries facing foreign exchange constraints, the Central Bank has concluded bilateral payments arrangements with 22 countries in Africa, Latin America, Oceania and South and South-East Asia. The Central Bank in each participating country will settle or guarantee payment for imports;

- *Export Credit Refinancing (ECR) Scheme.* This scheme is operated by the Central Bank and has three objectives: to provide exporters and domestic suppliers with pre-shipment and post-shipment financing of manufactured and agricultural goods at preferential rates of interest; to promote significant value-added and high local content of exports; and to develop backward linkages in export-oriented industries. Pre-shipment financing is for 80 per cent of export value while post-shipment financing is 100 per cent.

- *Export Credit Insurance and Guarantee (ECIG) Scheme.* This scheme promotes exports to non-traditional markets by providing insurance coverage, of up to 85 per cent of export value, against the risk of non-payment by foreign buyers. Complementing the ECR scheme, is it funded by Malaysia Export Credit Insurance Berhad (MECIB), a wholly-owned subsidiary of the government-owned Industrial Bank of Malaysia. MECIB also provides protection for bond indemnity, buyer credit guarantee, bankers' export finance, and confirmation of letters of credit by banks;

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[2] The Centre is leased to and managed by the National Chamber of Commerce and Industry, which represents the private business sector.

- *Double deduction of export credit insurance premiums.* Exporters to non-traditional markets can apply for double deduction for premium payments in respect of export credit insurance;

- *Double deduction for promotion of exports.* Exporters can also qualify for double deduction of expenses incurred in export promotion.

- *Malaysia External Trade Development Corporation (MATRADE).* Malaysia's trade promotion organization, this corporation is the export promotion arm of MITI. Its main responsibilities are to assist in maintaining the competitiveness of Malaysian value-added products and services in the global market place. Apart from being a one-stop information and advisory centre for the Government and the private sector, MATRADE assists Malaysian exporters to participate in trade missions and international trade fairs.

- *Trade and investment missions.* Export promotion is boosted each year by a number of trade and investment missions overseas led by the Minister of International Trade and Industry. In addition, private sector trade delegations are invited to accompany the Prime Minister on official visits overseas.

- *General trading companies.* Large Malaysian companies such as Sime Darby assist in promoting trade and economic linkages with countries of the South. A grant of $M 2 million is provided as seed money to each general trading company to implement the trade promotion programme.

III. PUBLIC AND PRIVATE SECTOR SUPPORT SYSTEMS

Malaysian Business Council (MBC)

In line with the concept of Malaysia Incorporated, the Malaysian Business Council exemplifies public-private sector collaboration in the enhancement of Malaysia's international competitiveness. Chaired by the Prime Minister, it comprises ministers, senior government officials and captains of industry. It has 10 working committees and is served by the Institute of Strategic and International Studies.

Ministry of International Trade and Industry (MITI)

MITI is responsible for facilitating and promoting Malaysian exports. To that end it is assigned the following seven objectives:

- to contribute to the maintenance of an open and strong multilateral trading system based on the GATT;
- to undertake liberalization measures through regular reviews of the trade regime;
- to maintain and expand Malaysia's trade with major trading partners;
- to diversify and expand trade in non-traditional markets, particularly countries in the South;
- to promote and develop exports of manufactured and value-added resource-based products;
- to seek improved and favourable market access for Malaysia's exports of processed commodities and manufactured products; and
- to strengthen and expand intra-ASEAN trade through closer economic and trade cooperation.

MITI also provides a range of support services to Malaysian exporters and foreign buyers by disseminating information on new market opportunities through trade publications, seminars, workshops and trade fairs. It is assisted overseas by 32 Malaysian Trade Commissionersand also holds an Annual Trade and Industry Dialogue with the private sector.

Export Promotion Council (EPC)

EPC comprises government officials and representatives from the Malaysian Chamber of Commerce, Federation of Malaysian Manufacturers and other trade and industry associations. Its main functions are to advise the Government in the formulation of new export strategies and to coordinate public and private sector programmes so as to expand the country's export earnings. It also has assisted in setting up the Aligned Documentation System and the Electronic Data Interchange as well as the rationalization of export procedures.

Other support services

MITI manages the network and information system called the "South Investment, Trade and Technology Data Exchange Centre" on behalf of the G-15 countries. The private sector has set up the Malaysia South--South Association to promote economic cooperation with countries in the South such as Chile, Peru, Namibia and Viet Nam.

IV. OUTLOOK FOR EXPORT EXPANSION TO THE YEAR 2000

Malaysia's economic dynamism is attributable largely to its outward-oriented trade policies and to good governance. International trade is the engine of growth and the world is Malaysia's economic stage. As shown in annex VI, Malaysia's trade pattern with other countries is well balanced, with ASEAN accounting in 1993 for 24 per cent, North-East Asia 33 per cent, North America 19 per cent and the European Union 13 per cent. The recent cration of regional groupings such as NAFTA and AFTA, as well as the Single European Market, may change to some extent Malaysia's trading patterns but should not affect the export momentum.

As noted above, the Second Outline Perspective Plan 1991-2000 envisages that merchandise exports will grow at an annual rate of 12.4 per cent, slightly lower than the 14.7 per cent achieved during the 1970-1990. Likewise, imports are envisaged to grow annually by 11.8 per cent, compared with the earlier 15.7 per cent. The outlook seems bright for such an increase in exports, by at least the projected annual growth rate to the year 2000, notwithstandingsome current uncertainties regarding the growth prospects of certain industrial countries which are Malaysia's major markets. To remain competitive, Malaysia is giving more attention to the production and export of high value-added, high-technology and knowledge-based products associated generally with capital-intensive industries, while at the same time capitalizing on the strength of resource-based products and actively encouraging the SMIs to find overseas market niches. The Government now actively encourages reverse investments overseas by Malaysians to further strengthen overseas market linkages. An EXIM Bank may be set up soon to boost exports.

With the conclusion of the Uruguay Round in April 1994, the global trading system is seen as having entered into a new era of increasing trade liberalization as well as competition. There is hope that the proposed World Trade Organization, to be set up in January 1995, will develop an integrated and more viable multilateral trading system backed by a viable dispute settlement mechanism.

Malaysian exports should benefit from the substantial trade-weighted tariff reductions and increased bindings of tariffs by all participating countries, in particular the United States, Japan and the European Union. A government estimate indicates a more than 45 per cent tariff cut in Malaysia's major export markets.

In return, Malaysia has reduced its trade-weighted tariff for industrial products from 10.2 per cent to 8.9 per cent, lower than that of some OECD countries. With effect from 1 January 1994, two export incentives - abatement of income for exports and export allowance - had been abolished. A performance requirement, the local content policy, and the double deduction for export promotion will be phased out over the medium term.

Given these considerations and the recognition that more and more countries are turning to export-led growth strategies, the expansion of exports is likely to come up against stiff competition. Meeting this challenge successfully will require more efforts and discipline to find new gateways for regional markets, to sharpen the competitiveness of Malaysian exports through technology and value-adding and to further strengthen the structural competitiveness of the Malaysian economy. The facilitator role of the Government in export expansion and in strengthening structural competitiveness is certainly one of the most important aspects of good governance.

Annex I

Economic and trade performance, 1970-1993

	1970	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993
GDP at market prices (RM billion)	12.2	53.3	77.5	71.6	79.6	90.6	102.5	115.8	129.6	147.8	165.9
($ billion)	4.0	24.5	31.2	27.7	31.6	34.7	37.9	42.7	47.1	58.0	64.4
GDP growth rate (1978 constant prices)	4.5	7.4	-1.1	1.2	5.4	8.9	9.2	9.7	8.7	7.8	8.5
CPI (1980=100)	101.9	106.7	100.4	101.0	100.8	102.5	102.8	103.1	104.4	104.7	103.6
Unemployment rate (%)	7.4	5.6	6.9	8.8	8.2	7.9	7.1	5.6	4.3	3.9	3.0
Total exports ($ billion)	1.7	12.9	15.4	13.7	18.0	21.1	25.0	29.5	34.4	40.7	47.1
(% of GDP)	41.3	52.9	49.0	49.5	57.0	60.8	66.0	68.8	73.0	70.2	73.1
Manufactured exports											
(% of total exports)	13.4	22.4	32.8	43.5	45.0	48.6	53.9	58.8	64.9	68.9	74.3
Imports (% of GDP)	32.5	44.0	39.3	39.0	40.1	47.6	59.4	68.3	77.8	68.6	70.8
Exchange rate:# RM/US$	3.0775	2.2175	2.4135	2.6015	2.4915	2.7125	2.6990	2.6980	2.7235	2.6065	2.7010
RM/100Y	0.8613	1.0924	1.2048	1.6250	2.0347	2.1548	1.8835	1.9971	2.1745	2.0902	2.4127

Source: Department of Statistics, *External Trade Summary*, December 1993; Bank Negara Malaysia, *Annual Report*, various years; Bank Negara Malaysia, *Quarterly Bulletin*, December 1993; Ministry of Finance, *Economic Report*, various years.

End of year.

Export structure, 1970-1993

	SITC code	Share of exports (per cent)						
		1970	1980	1985	1990	1991	1992	1993
Manufactures		13.4	22.5	32.6	59.1	64.9	69.3	74.3
Electronic components	776	-	8.2	11.6	14.7	13.8	13.9	15.4
Electrical appliances								
Equipment & machinery	71 - 76, 778	1.0	2.6	5.5	18.6	23.8	26.3	26.7
Transport equipment	78, 79	0.6	0.8	1.4	2.4	3.5	3.7	3.0
Optical & scientific equipment	87, 88	0.1	0.5	0.6	1.3	1.7	1.7	1.6
Textiles, clothing & footwear	65, 84, 26, 613, 851	0.8	2.9	3.4	5.0	5.1	5.1	6.6
Chemicals & chemical products	51 - 59	0.7	0.6	1.1	1.6	1.8	2.1	2.2
Petroleum products	334, 335, 342, 344	3.1	0.6	2.7	1.6	1.2	1.4	1.4
Rubber products	62, 848, 233	0.3	0.5	0.7	1.7	2.1	2.1	2.1
Wood products	244, 245, 633, 634, 635, 821	1.7	1.7	1.0	1.9	2.2	2.7	4.8
Paper products	641, 642, 246, 251	0.1	-	0.2	0.5	0.5	0.5	0.4
non-metallic mineral products	661 -667	0.4	0.2	0.4	1.0	0.9	0.9	0.9
Iron & steel products	671 -679, 282	0.2	0.1	0.3	0.8	0.7	0.9	1.0
Manufactures of metal	681 -689, 691 - 699, 821 - 3	0.2	0.9	0.9	2.0	2.1	2.1	1.9
Processed food	017 - 112	3.0	1.5	1.8	1.6	1.9	2.0	1.8
Other manufactures	-	1.2	1.4	1.0	4.4	3.6	3.9	4.5
Primary commodities		85.4	76.7	66.3	39.7	33.8	29.7	24.7
Crude petroleum	333	3.9	24.4	23.4	13.4	10.8	9.0	6.8
LNG	343	-	-	6.0	3.3	3.5	2.4	2.1
Tin	687	19.6	8.9	4.2	1.2	0.7	0.7	0.4
Rubber	231	33.4	16.5	7.5	3.8	2.8	2.3	1.7
Sawn logs	247	12.5	9.2	7.0	5.1	4.4	3.7	2.4
Sawn timber	248	4.0	4.9	2.8	4.5	3.7	3.9	3.7
Palm oil	422.2, 422.4, 481.2, 431.3	5.3	10.5	11.8	6.2	5.8	5.7	5.2
Cocoa	071	0.1	0.6	1.0	0.6	0.4	0.3	0.2
Others	-	6.6	1.7	2.6	1.6	1.7	1.3	2.2
Miscellaneous		1.2	0.8	1.1	1.2	1.3	1.0	1.0
Total (%)		100.0	100.0	100.0	100.0	100.0	100.0	100.0
$ billion		1.7	12.9	15.4	29.5	34.4	40.7	47.1

Source: Department of Statistics, *External Trade Statistics*; Bank Negara Malaysia, *Annual Report*, various issues.

Annex III

Intra-industry trade with world, 1985, 1991, 1992, 1993

(Percentages)

SITC code		1985	1991	1992	1993
	All categories	36.1	66.8	72.0	78.84
5-9	Manufactured exports	17.0	55.3	61.1	68.75
	Selected commodities				
022	Dairy products	20.3	33.6	33.1	35.8
072	Cocoa	0.2	1.4	2.2	2.9
081	Animal feed	84.7	90.4	79.3	77.2
098	Edible products & preparations, nes	57.9	68.7	74.8	78.8
122	Tobacco, manufactured	16.6	82.7	86.8	94.9
231	Natural rubber	3.5	10.3	12.0	21.1
333	Crude petroleum	22.9	6.7	6.7	10.3
334	Petroleum products	58.6	47.0	53.4	58.0
343	Natural gas	4.3	0	0	0.4
422	Other fixed vegetable oils	2.4	10.0	7.9	9.8
554	Soap, cleansing and polishing preparations	35.5	91.2	89.9	84.7
562	Fertilizers	2.6	57.2	56.8	46.0
575	Other plastics in primary forms	9.7	11.8	25.8	34.8
651	Textile, yarn	82.0	53.2	61.9	88.9
653	Fabrics, woven, man-made materials	76.0	67.8	68.3	78.6
655	Knitted or crocheted fabrics	31.7	55.1	61.8	63.9
687	Tin	1.6	16.4	15.9	25.9
699	Manufactures of metal, nes	42.3	43.9	46.9	57.3
761	TV receivers	65.7	5.5	4.4	4.4
762	Radio-broadcast receivers	50.2	11.5	10.5	8.1
772	Electrical apparatus, resistors, etc.	48.3	56.4	55.4	60.8
776	Thermionic valves, tubes, photocells, etc.	91.9	97.8	97.4	98.8
778	Electrical machinery and apparatus	42.5	51.5	53.7	53.0
781	Motor cars, other motor vehicles	0.9	16.7	33.5	33.0
821	Furniture	78.5	33.3	23.7	17.1
841	Men's or boys' coats, capes, jackets, trousers, etc.	45.8	6.1	7.6	9.1
848	Apparel and clothing accessories other than textile fabrics, headgear	9.4	5.6	4.9	4.1
851	Footwear	74.5	35.9	34.4	35.3
874	Measuring and analysing instruments	34.3	31.3	34.7	37.8
894	Toys, games, sporting goods	96.3	50.8	51.8	45.1

Source: Department of Statistics, *External Trade Summary* and *Annual Statistics of External Trade*.

Annex IV

Trade of Malaysia by region

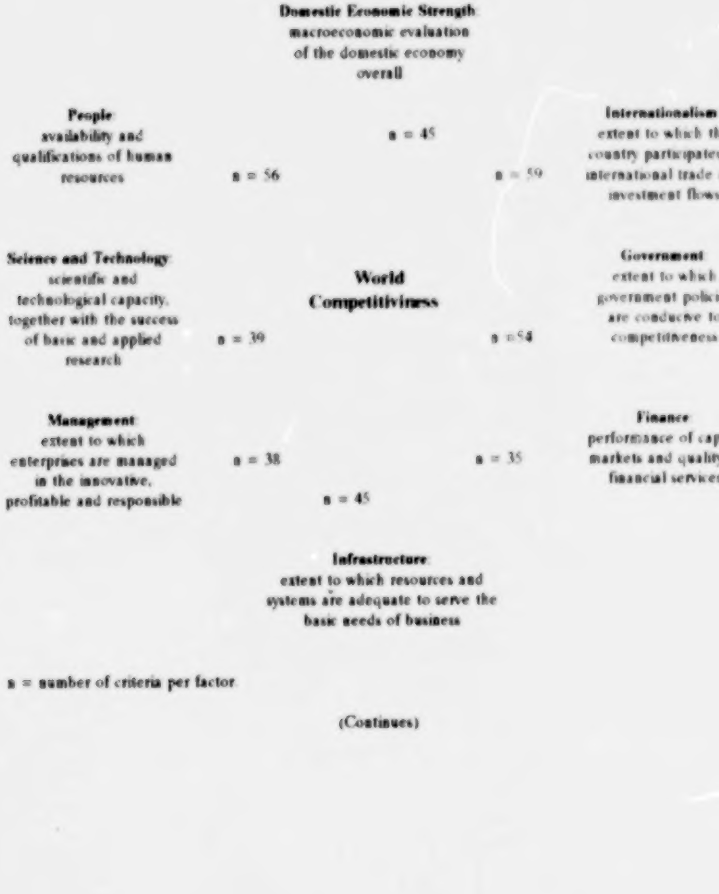
(Percentage distribution)

Region	1970			1980			1990			1993		
	EXP	IMP	TRADE	EXP	IMP	TRADE	EXP	IMP	TRADE	EXP	IMP	TRADE
Asia Pacific	72.4	66.2	69.6	73.7	70.1	71.9	77.1	79.0	78.1	78.9	83.0	80.9
ASEAN	25.4	22.5	24.1	22.5	16.4	19.5	28.9	18.9	23.9	27.9	19.8	23.9
North East Asia	24.7	27.0	25.8	30.2	30.8	30.5	27.9	35.9	31.8	26.3	40.3	33.2
North America	14.9	9.7	12.6	16.9	16.1	16.5	17.7	17.7	17.7	21.3	17.4	19.4
European Union	20.3	23.4	21.7	18.4	15.4	16.9	14.9	14.6	14.7	14.5	11.6	13.1
Rest of world	7.3	10.4	8.7	7.9	14.5	11.2	8.0	6.4	7.2	6.6	5.4	6.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
$ billion	1.7	1.4	3.1	12.9	10.8	23.7	29.5	29.2	58.7	47.1	45.6	92.7
% of GDP	42.5	35.3	77.8	52.9	44.0	96.9	68.8	68.3	137.1	73.0	70.8	143.8

Source: Department of Statistics, *External Trade Summary*

Annex V

Factors of competitiveness


Domestic Economic Strength:
macroeconomic evaluation
of the domestic economy
overall
People:
availability and
qualifications of human
resources
n = 45
n = 56
n = 59
Internationalism:
extent to which th
country participate
international trade
investment flows
Science and Technology:
scientific and
technological capacity,
together with the success
of basic and applied
research
**World
Competitiviness**
n = 39
n = 54
Government:
extent to which
government polici
are conducive to
competitiveness
Management:
extent to which
enterprises are managed
in the innovative,
profitable and responsible
n = 38
n = 35
Finance:
performance of cap
markets and quality
financial services
n = 45
Infrastructure:
extent to which resources and
systems are adequate to serve the
basic needs of business

n = number of criteria per factor

(Continues)

Annex V (continued)

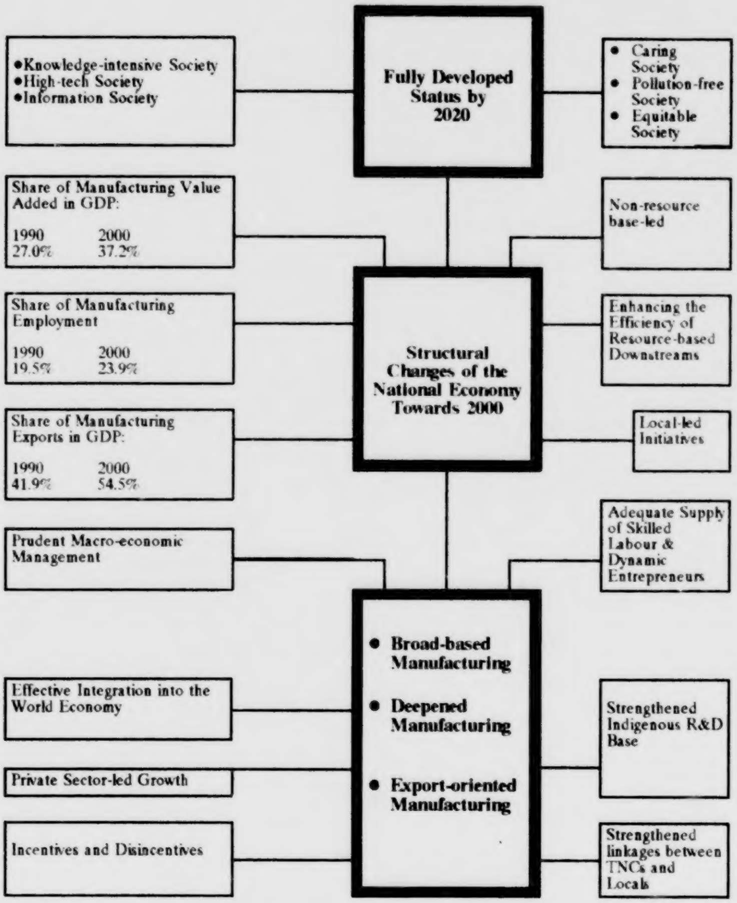
Malaysia's performance in world competitiveness, 1992 and 1993

	1992	Factor	1993
	6	Domestic economic strength	3
	5	Internationalization	5
	2	Government	4
	3	Finance	3
	5	Infrastructure	6
	4	Management	5
	6	Sciency & technology	5
	4	People	6
Overall ranking	4	(8 factors)	4

Source: World Economic Forum, *World Competitiveness Report 1993*.

Annex VI

Strategies for industrial development towards the year 2000


•Knowledge-intensive Society
•High-tech Society
•Information Society
Fully Developed Status by 2020
• Caring Society
• Pollution-free Society
• Equitable Society
Share of Manufacturing Value Added in GDP:
1990 27.0%
2000 37.2%
Non-resource base-led
Share of Manufacturing Employment
1990 19.5%
2000 23.9%
Structural Changes of the National Economy Towards 2000
Enhancing the Efficiency of Resource-based Downstreams
Share of Manufacturing Exports in GDP:
1990 41.9%
2000 54.5%
Local-led Initiatives
Prudent Macro-economic Management
Adequate Supply of Skilled Labour & Dynamic Entrepreneurs
• Broad-based Manufacturing
• Deepened Manufacturing
• Export-oriented Manufacturing
Effective Integration into the World Economy
Strengthened Indigenous R&D Base
Private Sector-led Growth
Incentives and Disincentives
Strengthened linkages between TNCs and Locals

Source: "Structural Change and Industrial Development - The Malaysian Experience", paper by Professor Choong Yong Ahn, June 1992.

THAILAND'S STRATEGIES FOR ITS EXPORT SECTOR

Surat Pongpipatpanich[*]

This paper attempts to highlight the past macroeconomic performance of the Thai economy, including the recent period, to describe the role of the Government and the private sector in respect of this performance, and to point out any prospective problems for the country in relying on its external sector as a source of growth.

I. THE THAI ECONOMY IN RETROSPECT

Trend up to the early 1980s

Among developing countries, Thailand is considered to be that which has experienced a steady growth after World War II. Another remarkable thing is that it was often able to enjoy a moderate rate of growth (3-5 per cent per year) during a slowdown of the world economy.

One factor explaining Thailand's growth throughout the period is its resource base (Siamwallar and Setboonsarng, 1989), principally abundant land and cheap labour. However, this source of growth has been gradually exhausted and Thailand must seek some other potential source of growth such as labour productivity and technological improvement (Kaosa-ard, 1992).

Notwithstanding the years of oil shock, 1973-1974 and 1980-1981, annual rates of inflation have been generally moderate, averaging 3-4 per cent.

As a result of the growth-related policy pursued by the Government, a structural change also took place in the economy. Before the mid-1970s, agriculture accounted for more than 30 per cent of GDP, services for less than 50 per cent and manufacturing for some 15-17 per

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cent. Since 1980, the share of agriculture has fallen well below 20 per cent, that of services has been above 50 per cent and the share of manufacturing exceeded 20 per cent. Underlying this structural transformation is the fact that the share of the agricultural sector in national output is smaller, and its share in employment higher, than for other sectors.

During the period of growth in the 1960s and 1970s (achieved mainly by implementing an import substitution policy), exports of rice and other major crops secured a large portion of the foreign exchange earnings needed to finance imports for industrialization.

As far as income distribution is concerned, two seemingly contradicting phenomena should be mentioned. One is a decline in the poverty line (Meesook, 1979, and the World Bank, 1985, cited in Siamwalla and Setboonsarng, 1989). The other is a rising income disparity (Krongkaew, 1985, also cited in Siamwalla and Setboonsarng). As regards poverty, its incidence, as measured by the proportion of population living below a defined poverty line, fell from 57 per cent in 1962-1963 to 24 per cent in 1981. This indicates that the poor at least also benefited by the economic growth. As regards income distribution, it has become more unequal whether measured in terms of regional or interregional disparities or a comparison of urban and rural incomes.

The expansion of the late 1980s

The first oil shock, in 1973, caused the Thai economy to undergo some adjustment at the micro level rather than inducing an overall slowdown of growth. This adjustment was necessary due to a cost-push inflation that not only increased in the general level of prices but also changed relative prices.

Contrary to what one might expect, macroeconomic performance was not significantly affected by that external turbulence. From 1974 to 1979, the years between the two oil price shocks, the average annual growth GNP was still above 7 per cent. It should be noted that, for two decades before 1979, the Thai economy, on average, had grown by 7-8 per cent per year.

Taking 7 per cent as the average growth rate, there are five years during 1980s in which growth was below this rate, namely each of the years 1980-1982 and 1985-1986. Many economists in Thailand consider the first half of the 1980s as a period of slowdown and the second half as one of expansion.

Structural change has been going on as before in the Thai economy. By 1990 the share of agriculture in national output had fallen to 12 per cent (from 32 per cent in 1965) while that of manufacturing and services rose to 26 per cent and 48 per cent, respectively (14 per cent and 45 per cent in 1965). In the same year, the share of employment for these three sectors was respectively 70 per cent, 6 per cent and 24 per cent (Brummitt and Flatters, 1992).[1]

There are a number of forces driving this structural change, as the same source discusses. Extensive agricultural growth, experienced prior to the 1980s through expansion of cultivated land by deforestation, came to an end because of environmental and drought problem that began to be of serious concern to the Thai community. The terms of trade for agriculture declined coupled with a slight improvement of farm productivity. On the other hand, manufacturing growth over the first half of the 1980s was, as much as in the 1970s, attributable to the growth of those well protected industries that were mainly import-substituting. But in the second half of that period, manufacturing production shifted away from import substitution towards exports. As is discussed in the next section, this was a consequence of a change in government policy, from an inward-looking to an outward-looking attitude.

Thailand's economy during the 1980s has been summarized by Akrasanee (1989). It was "the decade of drastic economic change". In the early 1980s the country experienced a moderate rate of GDP growth, a large current account deficit, a rising debt-service ratio, and high inflation. The impact of the second oil shock and the commodity price slump was widely felt. Economic stability was attained in the mid-1980s through restrictive fiscal and monetary measures, but at the cost of low

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[1] As indicated by the authors, the output data come from the World Bank's *World Development Report 1992*, and the employment data from UNDP's *Human Development Report 1992*.

GDP growth. Starting in 1986, the economy shifted into high gear, entering an era of very high growth with financial strength, resulting mainly from booming exports, foreign investment, and tourism and reaching double-digit growth rates in 1988 and 1989. As a consequence, the economy has now become much more internationalized, with profound and wide-ranging effects on economic activity and the well-being of the Thai people.

Indeed, the recent growth of the economy was first stimulated by the expansion of exports, which was as high as 35 per cent per year since 1986 (Akrasanee, 1989). There was also a remarkable change in the structure of exports: the value of industrial exports surpassed that of agricultural exports for the first time in 1985, and their share in total export value has been growing since then. Agriculture is no longer a major foreign exchange earner for Thailand.

Data on foreign capital flows during the 1980s period show that (1) the share of foreign investment in private investment rose from 3.6 per cent to 9.6 per cent; (2) foreign portfolio investment increased from less than 2 per cent of all security market trading volume to 12.9 per cent; and (3) the share of foreign loans in commercial credit declined from 43.1 per cent to 13.7 per cent (Akrasanee, 1989).

Trade and investment played a positive role in the growth of the economy in the 1980s. A CMS (constant market share) analysis by the same author revealed that the annual growth rate of more than 20 per cent for Thai exports was due to a gain in international competitiveness besides the growth in world trade. The competitiveness factor caused Thai exports to continue their growth even in some importing countries where there was a slowdown of the economy (Dapice and Flatters, 1989).

The next section reviews policies that have been pursued by the Thai Government to achieve the results described above.

II. EXPORT PROMOTION POLICY

As mentioned above, there was a change in policy by the late 1980s when the slump in commodity prices confronted the country with financial difficulty. The Government started to implement an export-oriented policy, although import-substituting industries continued to be protected. This section describes briefly the policy measures taken to encourage an expansion of exports.

The Board of Investment (BOI) was established as early as 1958, for the primary purpose of promoting domestic investment. Special inducements included variable forms and degrees of corporate income-tax holidays and exemptions from tax on imports of machinery as well as, in some cases, raw materials. During the 1960s and early 1970s the Board had been guided by the principle of import substitution. There after, a two-tier policy - i.e. on the one hand, promoting exports while on the other, still protecting import-competing producer - was made possible by the following measure. Besides the named privileges granted by BOI, eligible producers of export items were accorded the further privilige of a rebate of taxes paid on imported goods for their export production.

Another policy measure for stimulating exports was the export credit facility granted to exporters by the Bank of Thailand. Such credits extended to manufactured in 1988 amounted to $2.8 billion, or 56 per cent of total export credits, and in 1993 were over $6 billion.

Thailand's exchange rate policy has two main features: the currency (baht) is linked to the dollar and the policy is to maintain a constant parity of the exchange rate. There have in fact, been only two official devaluations, one in 1981 and the other in 1985. Since inflation in the United States and Thailand diverged, the real exchange rate of the baht against the dollar has fluctuated, and it was because of such a rise in the real rate in the late 1970s (due to high inflation in Thailand) that two successive currency devaluations were undertaken. It should be nevertheless be noted that compared to a number of other currencies with fluctuating exchange rates, the baht is one of the world's stablest currencies and that the Thai Government has been very cautious in conducting its foreign exchange policy in order not to prejudice exports.

Thailand pursued a conservative monetary policy until the mid-1970s. When there was a change in attitude by the Bank of Thailand, which gave less emphasis to stability and used of bank credit as an instrument to stimulate growth. As in other countries, Thai monetary policy had to be adjusted to cope with oil shocks and other external disturbances. Since the beginning of the 1980s monetary policy has been pursued in a less stringent, more liberalized, manner.

As to the effectiveness of policy concerning the external sector, it is hard to pinpoint what particular policy did or did not contribute to the dramatic growth of exports in the recent past. However, the least that can be said is that the investment policy of BOI provided many incentives to overseas investors to establish export activities in Thailand, with the result that there was an expansion of manufactured exports in the second half of the 1980s (Akrasanee, 1989).

III. DEPARTMENT OF EXPORT PROMOTION OF THAILAND

This Department provides a directory service to potential exporters and importers. It has recently established a library where persons interested in overseas trade can find trade information. It provides a kind of "commodity person" service for exporters (and also importers) wishing to specialize in a particular commodity to be traded. The person dealing with the commodity gathers detailed information about it, ranging from a list of the major world traders to prices and a list of importing and exporting countries. The Department also offers training programmes for those who have no experience in foreign trade before but want to start off their business in this field. It is also responsible, on behalf of the Government, for arrangements concerning all incoming and outgoing trade missions.

Other activities include, organizing occasionally, jointly with the private sector, trade fairs and exhibitions and acting as a focal point for trade liaison officers dispersed in many countries around the world.

IV. THE ROLE OF THE PRIVATE SECTOR

The private sector in Thailand has developed rapidly and often works at maximum efficiency. Especially in the past few years, when the entire manufacturing sector began to lose international competitiveness due to rising wages, it must do a number of things to overcome this handicap, including a shift to products with higher value added, enhancing labour productivity, and applying more capital-intensive technology.

Another area where the private sector plays a significant role is in the adaptation of imported technology. However, as has been discussed by some economists (for example Kaosa-ard, 1992), most private firms still do not have technical capabilities beyond what is needed for daily operations, investment in R&D by firms is minimal (many firms with sales over one billion baht have no R&D department), and it is difficult to apply public R&D capabilities in the private sector because many firms lack practical experience.

V. PROSPECTS AND PROBLEMS OF GROWTH

The 1987 TDR Year-End Conference (Uathavikul and Patmasiriwat, 1987) concluded that:

- there would be a momentum of growth in the near future, so that the economy could still move ahead on its existing growth path;
- but the social cost of growth would be a crucial problem for the country.

The social cost includes, first of all, pollution and environmental degradation and unstable prices. Pollution is the cost of industrialization, but there is little doubt that its benefits exceed the costs. Nevertheless, failure to take this environmental cost into account will in turn result in a higher cost than necessary. Also, the cost burden will be shared inequitably (Phantumvanit and Panayotou, 1990).

Unstable prices may disturb the normal path of long-term growth. It is expected that inflation average will be around 5-6 per cent per annum, and such a rate could bring about a fast increase in domestic spending, thereby accelerating inflation. In addition, it would seem to be higher than the rate likely to be experienced in the United States, and the consequent fall in the real exchange rate against the dollar would be harmful to Thailand's export. The management of the country's macroeconomic problems would be facilitated if this inflationary pressure can be kept within bounds.

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GROUP III: Countries with significant reforms for export development

Bangladesh
Fiji
India
Nepal
Pakistan
Philippines
Samoa
Sri Lanka
Viet Nam

EXPORT STRATEGIES IN BANGLADESH

Ghulam Rahman[*]

I. EXPORT STRATEGY, 1992-2000

With a population of about 120 million in an area of 144, 000 sq. km and per capita income of $220, Bangladesh has the unenviable position of being the largest least developed country (LDC) in the world. The low per capita income limits the scope for domestic savings. The ability to earn foreign exchange is, on the other hand, restricted by the narrow resource base. As a result, export earnings are largely dependent upon a few products, most of which are subject to domestic shocks and to fluctuations in the international market.

There has been a shift in government policy in recent years to overcome this situation. Narrow and inward looking import substitution industrialization has gradually been replaced by a broad and outward-looking export-oriented industrialization policy. This has assigned high priority to export development within the framework of a market-oriented economy. It is now felt that accelerated development of exports is an urgent need, not only for easing the growing pressure on the balance of payments, but also for the growth of viable and efficient agricultural and industrial sectors for balanced rapid economic development and the alleviation of abject mass poverty.

With this end in view the Government has adopted an export-led growth policy and formulated a long-term strategy for its implementation. This long-term strategy is embodied in the Export Development Strategy which provides for the following:

- Removing procedural and regulatory bottlenecks incompatible with fulfilment of the Strategy;
- Strengthening and improving the institutional framework for providing better services to exporters and export-oriented

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industries;

- Taking care of the entrepreneurial and managerial inadequacies, in the context of the international competitive environment, through appropriate human resource development programmes; and
- Formulating and implementing an export development programme to broaden and diversify the range of exportable products.

While removal of constraints and improvement in the incentive structure will enhance export performance in the short-to-medium term, expansion of production, along with adaptation and development of products to compete in the overseas market, constitutes a medium-to-long-term priority. The Strategy thus intends to turn the drive for export-led growth into an economic movement.

II. EXPORT POLICY 1993-1995

Within the broad framework of the Bangladesh Export Development Strategy, there was formulated an Export Policy 1993-1995. The main objectives of which are:

- To develop marketability of exportables through product diversification and quality improvement;
- To establish backward linkage with export-oriented industry and service sectors for utilization of more local materials;
- To attract an increased number of entrepreneurs for setting up export-oriented industries and encourage them through the provision of suitable incentive mechanisms;
- To expand and consolidate existing export markets and also create new markets for Bangladesh exportable.

The procedures to be followed to achieve the above objectives are:

- Streamlining export procedures and strengthening export-led cooperation by reducing the regulatory role of the Government;

- Expediting the expansion of the improved traditional/semi-intensive method of shrimp cultivation;
- Undertaking programmes for developing export-oriented computer software and engineering consultancy services;
- Participating in international trade fairs, and organizing single country exhibitions;
- Organizing commodity-wise trade fairs of international standard within the country.

III. INCENTIVES FOR EXPORTERS

In line with the above objectives and strategies, an incentive package has been formulated and incorporated in the Export Policy 1993-1995. The incentive package for exporters includes:

- duty-free import of capital machinery by 100 per cent export-oriented industries outside the export-processing zones;
- special bank facilities to exporters of engineering and consultancy services;
- an export promotion fund for product development and market promotion of new and crash programme items;
- a $25 million credit line for promoting exports to markets of the former USSR;
- exemption from payment of 50 per cent of income tax on income derived from exports;
- exemption from payment of import licence fees by exporters who import raw materials exclusively for export production.

Previously, export policy was formulated on a yearly basis. To maintain continuity in effective support and assistance schemes, the Policy has been biennial since 1989. This has not only rationalized the incentive structure, but also eliminated the uncertainty resulting from frequent policy shifts.

IV. EXPORT TRENDS 1992-1993

Despite adverse world trading conditions and slow economic recovery, export performance over the years has been quite impressive. The journey which started in 1972/73 with export earnings of a mere $348 million reached a respectable amount of $2,383 million in 1992/93.

Table 1: Annual export earnings

(Millions of dollars)

Financial year	Value	Annual increase (Per cent)
1983/84	811	18.9
1984/85	934	15.2
1985/86	819	-12.3
1986/87	1 074	31.1
1987/88	1 231	11.7
1988/89	1 292	4.9
1989/90	1 524	18.0
1990/91	1 718	12.7
1991/92	1 994	16.1
1992/93	2 383	19.5

Source: Export Promotion Board.

Annual earnings since 1983/84 are shown in table 1. Over the 10 years since then they have grown at an annual rate of 13 per cent, reaching as much as 18 per cent in the last two (financial) years of the period.

The gap between import expenditure and export earnings, as reflected in the country's balance of trade, was widening until 1989/90, when it started to contract. The growth of exports was also higher than that of imports in most of the years, and particularly in the latter years, as is evident from table 2 below, which reveals that the export growth in the last three years was consistently higher than that of imports.

Because of the relatively higher growth of exports an increasingly large proportion of the impor bill was financed by exports as the years passed by. During the first half of the 1980s, export earnings could hardly meet 35 per cent of the import bill. This ratio increased to about 40 per cent during the latter half of decade. In 1990/91, there was a further push and exports earnings could meet nearly half of the import bill. This proportion soared to 57 per cent in 1991/92, and 60 per cent in 1992/93. Although there is still a wide trade gap, it has been significantly narrowed through increased export earnings.

A substantial transformation has also taken place in the structure of exports over the years. Table 3 shows that the share of manufactures in total exports has increased over the last 10 years, from 75 per cent to 87 per cent, whereas that of primary commodities has halved, from 25 per cent to 13 per cent. Since manufactured goods contain more local value added and can fetch higher prices, this structural change is a welcome one and in line with the government policy.

The export pattern of Bangladesh indicates a narrow product base. Although about 115 different products are exported, the main items of export are only seven.

Table 4 shows that these of seven products together contributed 91 per cent to the total export earnings of the country in 1992/93, of which, readymade garments 52 per cent, jute goods 12 per cent, hosiery products 9 per cent, frozen food 7 per cent, leather 6 per cent, raw jute 3 per cent and tea 2 per cent.

A further eight products, which are less prominent at the moment, have good prospects for future development, namely chemical fertilizer (2.2 per cent in 1992/93), specialized textiles (1.2 per cent), agricultural produce (0.6 per cent), engineering products (0.7 per cent), petroleum by-products (1.5 per cent), handicrafts (0.2 per cent), ceramic tableware (0.2 per cent), and electronics (0.04 per cent). These eight products together made up 7 per cent of total export earnings in 1992/93. Thus, 15 products accounted for about 98 per cent of total export earnings and the remaining 100 a mere 2 per cent.

Table 2: Imports, exports and balance of trade

(Millions of dollars)

Financial year	Value			Annual change		Ratio of exports to imports
	Exports	Imports	Balance of trade	Exports	Imports	
				(Per cent)		(Per cent)
1983/84	811.0	2 073.1	-1 262.1	18.1	7.8	39.1
1984/85	934.4	2 640.7	-1 706.3	15.2	27.4	35.4
1985/86	819.2	2 120.3	-1 301.1	-12.3	-125.8	38.6
1986/87	1 076.6	2 259.9	-1 183.2	31.4	6.6	47.5
1987/88	1 231.2	2 961.1	-1 729.9	14.4	31.0	41.6
1988/89	1 291.6	2 997.3	-1 705.8	5.0	1.2	43.1
1989/90	1 523.7	3 758.7	-2 233.0	18.0	25.4	40.5
1990/91	1 717.6	3 510.6	-1 793.0	12.7	6.6	49.0
1991/92	1 993.9	3 465.6	-1 471.7	19.5	1.3	57.5
1992/93	2 382.9	3 986.0	-1 603.1	19.5	15.0	60.0

Table 3: Exports of primary and manufactured commodities

Financial year	Total exports ($ million)	Percentage of total	
		Primary commodities	Manufactures
1983/84	811.0	24.7	75.3
1984/85	934.4	33.9	66.1
1985/86	819.2	36.5	63.5
1986/87	1 076.6	27.7	72.2
1987/88	1 231.2	23.3	76.7
1988/89			
1989/90	1 523.7	21.2	78.8
1990/91	1 717.6	17.8	82.2
1991/92	1 993.9	13.4	86.6
1992/93	2 382.9	13.2	86.8

Source: Export Promotion Bureau.

Table 4: Exports of major products

(Millions of dollars and percentage share)

Product	1972/73		1977/78		1982/83		1987/88		1992/93	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
Raw jute	133.8	38.4	96.9	19.6	109.8	16.0	80.5	6.5	74.3	3.1
Jute goods	1 179.3	51.5	249.0	50.4	319.7	46.6	302.4	24.6	292.4	12.3
Tea	9.7	2.8	45.3	9.2	46.6	6.8	39.0	3.2	41.1	1.7
Leather	16.2	4.6	45.4	9.2	58.5	8.5	147.2	12.0	147.9	6.2
Frozen food	3.1	0.9	19.5	3.9	72.1	10.5	139.7	11.3	165.3	6.9
Readymade garments	-	-	0.1	-	10.8	1.6	433.9	35.2	1 240.5	52.1
Knitwear	-	-	-	-	-	-	-	-	204.5	8.6
Sub-total	342.0	98.2	456.1	92.4	617.4	89.9	1 142.6	92.1	2 166.1	90.9
Chemical fertilizer	-	-	-	-	10.4	1.5	24.9	2.0	51.2	2.2
Specialized textiles	-	-	-	-	0.6	0.1	0.7	0.1	29.0	1.2
Agricultural products	0.7	0.2	3.9	0.8	7.0	1.0	19.1	1.6	14.5	0.6
Engineering products	-	-	0.2	0.0	2.5	0.4	2.8	0.2	17.5	0.7
Petroleum by-products	-	-	11.7	2.4	30.8	4.5	12.0	1.0	36.8	1.5
Handicrafts	-	-	1.8	0.4	2.5	0.5	3.8	0.3	5.4	0.2
Ceramic tableware	-	-	-	-	-	-	2.0	0.2	5.6	0.2
Electronics	-	-	-	-	-	-	-	-	0.9	-
Sub-total	0.7	0.2	17.5	3.5	53.8	7.8	65.2	5.3	161.0	6.8
Others	5.7	1.6	20.2	4.0	15.4	2.2	23.3	1.9	55.2	2.3
Total	348.4	100.0	493.7	100.0	686.6	100.0	1 213.2	100.0	2 382.9	100.0

Source: Export Promotion Bureau.

V. DIRECTION OF EXPORTS

In terms of regional destination, America was the biggest importer of Bangladeshi products in 1992/93, followed by the European Union. In earlier years, however, the EU countries topped the list, followed by America. From table 5 it can be seen that these two destinations together accounted for about 75 per cent of total exports. The contribution of the East European region is still very meagre, indicating that much development and promotional work needs to be undertaken to strengthen our position in that region, as well as in other regions with small market shares.

In terms of destination by country, there is dependence on the United States market. In 1992/93, there were 104 different markets for the country's exports, but the United States market alone took about 35 per cent. The biggest EU market was Germany (9 per cent of total exports), followed by the United Kingdom (8 per cent), Italy (6 per cent), France (5 per cent), the Netherlands (4 per cent), and Belgium (3 per cent). In Asia, the top three markets were Singapore, Japan and Hong Kong, respectively 3 per cent, 2 per cent and 2 per cent of the total. The first category of 10 markets thus took about 77 per cent of our total exports in 1992/93 (see table 6).

A further 10 markets for another 11 per cent of exports - Canada (1.9 per cent), Iran (1.5 per cent), Sudan (1.2 per cent), Pakistan (1.2 per cent), Russia (1.1 per cent), Spain (1.1 per cent), Turkey (1.0 per cent), Brazil (0.8 per cent), Syrian Arab Republic (0.69 per cent), and Australia (0.7 per cent). Thus, 20 markets took 88 per cent of total exports. While Bangladesh has been able to consolidate its position in the major market areas, promotional activities need to be strengthened in the other 84 destinations which at present take barely 12 per cent of its exports.

VI. CONCLUSIONS

A recent United Nations report highlights how the global trade opportunities have shrunk for the developing countries in general and the LDCs in particular. It states that "20 of 24 industrialized countries are more protectionist than they were 10 years ago. Almost 28 per cent of all OECD imports from developing countries are affected by non-tariff barriers. It is true that the developing countries use protectionist policy

Table 5: Regional distribution of exports

(Millions of dollars and percentage share)

Region	1972/73		1977/78		1982/83		1987/88		1992/93	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
America	94.8	27.2	80.1	16.2	89.5	13.0	397.1	32.2	901.9	37.9
European Union	92.2	26.5	100.2	20.3	127.6	18.6	362.5	29.4	877.5	36.8
Asia (excluding Middle East)	26.3	7.5	96.9	19.6	189.9	27.7	192.4	15.6	313.5	13.1
Middle East	12.8	3.7	48.2	9.8	90.2	13.1	84.2	6.8	103.9	4.4
Africa	44.3	12.7	85.8	17.4	90.2	13.1	72.0	5.9	74.6	3.1
Eastern Europe	36.5	10.5	56.7	11.5	71.4	10.4	63.4	5.2	40.5	1.7
Oceania	9.2	2.6	13.6	2.8	15.4	2.2	20.3	1.6	18.8	0.8
Others	32.4	9.3	12.4	2.5	12.5	1.8	39.1	3.2	52.3	2.2
TOTAL	348.4	100.0	493.7	100.0	686.6	100.0	1 231.2	100.0	2 382.9	100.0

Source: Export Promotion Bureau

Table 6: Exports by major countries of destination

(Millions of dollars and percentage share)

Destination	1972/73		1977/78		1982/83		1987/88		1992/93	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
United States	71.4	20.5	64.9	13.2	78.9	11.5	356.5	29.0	822.5	34.5
Germany	10.5	3.0	8.5	1.7	13.8	2.0	61.4	5.0	216.2	9.1
United Kingdom	26.6	7.6	41.0	8.3	31.0	4.5	73.0	5.9	183.4	7.8
Italy	14.4	4.1	18.6	3.8	32.1	4.7	116.0	9.4	137.4	5.8
France	8.7	2.5	6.2	1.3	7.3	1.1	26.5	2.2	127.4	5.3
Netherlands	8.1	2.3	9.0	1.8	12.8	1.9	27.4	2.2	85.8	3.6
Belgium	23.0	6.6	16.0	3.2	30.3	4.4	42.1	3.4	83.1	3.5
Singapore	5.6	1.6	2.8	0.6	14.5	2.1	32.5	2.6	79.9	3.4
Japan	6.7	1.9	15.1	3.1	45.0	6.6	57.1	4.6	53.3	2.2
Hong Kong	0.9	0.3	1.3	0.3	4.5	0.7	9.6	0.8	51.5	2.2
Above 10 countries	175.9	50.4	183.3	37.1	270.0	39.3	802.0	65.1	1 840.5	77.2
TOTAL	348.4	100.0	493.7	100.0	686.6	100.0	1 231.2	100.0	2 382.9	100.0

to protect infant and other industries. But the irony is that when the levelof average protectionism in developing countries is beginning to come down, partly as a result of structural adjustment programmes, the protectionist trade in the industrialized nations is gaining ground." Bangladesh, despite being a marginal participant in the world market in terms of its aggregate size and volume of trade, has also been a victim of this irony.

Fortunately for the country, the current macroeconomic reforms reflect a better and stable situation. An export development strategy has been formulated and the Government's firm commitment to support exports and follow an export-led growth policy has been announced. Recently, a high-level National Council for Export was established, chaired by the Prime Minister. Furthermore, a Task Force and an Export Promotion Council are also working to promote export under the chairmanship of the Minister of Commerce. These are healthy signs for export development and the results are also visible. Despite worldwide recession and the subsequent slack recovery export earnings increased from $1,292 million in 1988/89 to $2,383 million in 1992/93, a rise of more than 84 per cent. This momentum needs to be sustained, and accompanied by more concentrated and specialized efforts in the fields of product development, product diversification and market expansion.

STRATEGIES FOR EXPORT EXPANSION: THE EXPERIENCE OF FIJI

Roman Grynberg[*]

I. POSTWAR ECONOMIC AND TRADE PERFORMANCE

Since World War II the economy of Fiji has been based upon the export of sugar, and over the last 13 years the country has become a tourist destination. Tourism has risen in importance to the point that it now is the main source of foreign exchange earnings. Since 1987 there has developed a small but important garment export industry.

Fiji experienced high growth rates during the 1960s and the early 1970s, with annual growth in the 1970s averaging 4.7 per cent. In trade, Fiji undertook policies which:

- relied on import replacement;
- imposed high tariff barriers to establish local industry;
- allowed the exchange rate to become overvalued.

Economic growth slowed down considerably during the latter part of the 1970s and early 1980s, on account of a number of factors such as:

- worsening terms of trade;
- the effects on agriculture and tourism of two devastating cyclones;
- a general reduction in tourism;
- continued support for inefficient import-substituting industries;
- establishment of large and inefficient public sector enterprises;
- weariness of existing-import substituting policies;
- limited potential for import substitution;
- the 1974 and 1979 oil price increases.

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Recovery gained momentum in the mid-1980s, with a high growth rate achieved in 1986, just before the coup d'état of 1987. During the post-coup era high rates of growth were recorded (up to 11.8 per cent), coinciding with a rise in employment, especially in the manufacturing sector.

Up until 1987, Fiji's development policies were inward looking and were targeted at import substitution and self-sufficiency. There were few policies which encouraged the growth of a local export-oriented industry. The policy framework changed dramatically as the Government recognized the importance of export oriented industry. A variety of government initiatives and policies have been developed. Public and private programmes have been launched by various organizations in support of the Government's export-oriented development policy.

The private sector is now regarded as being the engine of growth, with the public sector playing a greatly reduced role.

II. GOVERNMENT DEVELOPMENT OBJECTIVES AND OVERALL STRATEGY

The current Government's overall strategy is geared towards the development and establishment of export-oriented industries with emphasis on the establishment of manufacturing. It is hoped to achieve this aim through a series of incentive schemes which will attract both local and overseas interest in investing in local industry. At the same time, the Government is seeking to reduce protectionist barriers which could obstruct business operations.

The Government has attempted to undertake a series of free market reforms that would enhance the export capacity of the country. It has introduced a series of labour market reforms that moved the economy from centralized wage determination to an enterprise-based system of collective bargaining and has moved to make trade union leadership more responsible to its membership.

The Government has also moved since 1987 to restructure the economy through a policy of public sector reform and reorientation of investment in favour of exports. These policies include public sector reform, the implementation of a programme of trade liberalization, privatization, as well as a change in taxation policy away from reliance upon import duties and other trade-distorting taxes to a system of value added taxes.

III. STRATEGIES FOR EXPORT EXPANSION

General policies favouring exports

Government policy since 1987 has included:

- A general reduction of tariffs (a general 25 per cent maximum rate) and the removal of licence protection. Since 1989, licence protection has been removed from 48 items and quantitative import restrictions have been tariffied. In the 1994 budget, the Minister of Finance and Public Enterprises announced a further 5 percentage point reduction in import duties, to be implemented in November 1994;

- A value added tax of 10 per cent, introduced in 192, along with a general reduction in income taxes;

- A relaxation of exchange control following the effective 50 per cent devaluation after the 1987 coup;

- A strategy of public enterprise reform and privatization, on which the Government is working;

- Limiting Government intervention in, and control of the operations of business by measures which include the phasing out of price controls in many sectors in the last few years;

- Introduction of a wages policy aimed at making greater use of wage bargaining, instead of the traditional cost-adjustment indexing of wages;

- Accession to GATT, in November 1993.

Also, there is no restriction on the remittance of dividends, profits, interests, royalties, loan repayments, settlement of trade debts, etc. Exporting firms may also retain 10 per cent of export earnings in an exchange account, and companies may remit $5 million profits per annum.

Fostering entrepreneurship

Various training schemes have been established in the past few years not only to expand the number of locally-owned business but also to foster the growth of existing businesses. Such schemes are sponsored by both local and foreign Governments and multilateral donor organizations. The Fiji Government hopes that such schemes will help Fiji's trade position by increasing the opportunity for exports and through increased local participation in activities which contribute to import replacement.

Specifically, SYB/IYB Workshops were held throughout 1992 and 1993 to teach participants how to start a business or how to improve their business. In 1992/93, 13 workshops were organized, with attendance by over 200 participants. Also the Fiji Development Bank has a training department which trains entrepreneurs in various business skills. This training facility is only available to ethnic Fijians, who have approved loans from the Fiji Development Bank.

The Government also has access to training schemes for entrepreneurs under the Forum Secretariat's Attachment Programme. Programmes which assist local entrepreneurs in the provision of technical expertise are also available from the Forum and other international organizations.

Additional training schemes to which Fiji has access are provided by the South Pacific Trade Office (Auckland), the South Pacific Trade Commission (Sydney), UNDP and the Australian International Development Assistance Bureau.

The Government has also provided general fiscal assistance to the private sector. Under Lomé IV, loan funds of close to $30 million have been made available within the Financial Protocol, under the European Investment Bank (EIB) programme.

The Fiji Development Bank gives discount lending rates to eligible ethnic Fijians under its Commercial Loans to Fijians Scheme. The current discount rate is 5 per cent and applies to loans from F$1,000 - F$2 million, covering 80 per cent of the project cost.

Adequacy of infrastructure

Due to its strategic location in the South Pacific, Fiji has regular air and shipping services. It has an international airport and three ports of entry which are equipped with modern container facilities. Nadi International Airport is currently served by six carriers which have flights to and from Australia, New Zealand, Japan and the United States. Fiji's main ports are in Suva, Lautoka and Levuka, with the latter two responsible for the bulk of its natural resource exports.

Fiji International Telecommunications Limited undertakes all international telecommunications. It provides extensive telecommunication services, including services such as telex, facsimile and subscriber dialling services. Most parts of the country have access to national STD services, except for remote areas.

Most business and government operations are situated on the main island of Viti Levu, and are served by the Hydroelectric scheme at Monasavu provides most electricity requirements, and is supported by various diesel generated stations. Occasional power failures and surges do take place, especially during heavy storms and during the cyclone season. The Fiji Electricity Authority is the sole governing body responsible for the supply of electricity. High level users such as commercial business may negotiate special discount rates with the Authority.

Fiji's main road network links all major centres on Viti Levu. Two highways link Suva and Lautoka, Fiji's two largest cities. There is as yet no complete sealed road around the main island of Viti Levu though a good sealed road links the capital Suva with the International Airport at Nadi. There is an ample supply of taxis, rent-a-cars and public transport in the form of buses which run regularly and service the major parts of Viti Levu and Vanua Levu.

Fiji boasts an extensive tourism infrastructure which is well established.

Specific measures and incentives to encourage production for export

This section outlines some of the more important schemes that are currently available to investors and exporters in Fiji. It should, however, be borne in mind that the system of incentives is currently being reviewed by the World Bank's Foreign Investment Advisory Service, with a view to rationalization. The review aims to recommend an incentive system that removes existing imbalances between sectors, is simpler and easier to understand and publicize and increases Fiji's attractiveness and competitiveness as an investment location.

Investment in Tax-Free Zone/Tax-Free Factory scheme

The Tax Free Zone/Tax-Free Factory scheme (TFF/TF2), initiated in 1988, is Fiji's main incentive scheme aimed at increasing exports. Its main characteristics are as follows:

Requirements: To benefit a company must satisfy at least one of the following criteria:

- export at least 95 per cent of its produce;
- supply at least 95 per cent of its produce to a TFF;
- reexport at least 95 per cent and be located within a proclaimed TFZ.

There are no minimum local value added criteria, but there is a requirement of some local manufacturing or processing.

Beneficial treatment includes the following:[1]

- Corporate profits are fully exempt from tax for a period of 13 years;
- No withholding tax on interest, dividends and royalty, provided there is no "shift of revenue abroad";
- Final dividend tax of 15 per cent on dividend paid to resident shareholders;

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[1] *Source*: Fiji Trade and Investment Board, *An Investor's Guide to Fiji*, Pamphlet No.3.

- Total waiver of licensing for import of capital goods and other production materials;
- Exemption of customs duty on imported raw materials, capital goods and equipment, components, spares and packaging materials, and other items purchased to set up a TFF;
- Exemption from excise duty on products manufactured within the zone;
- All materials supplied to the zone from outside are treated as exports eligible for export benefit such as remission of excise duties;
- All capital equipment, raw materials, spares and packaging materials are subject to 10 per cent VAT, with special arrangement to reimburse the full amount later.

Exceptions to these customs concessions are:

- passenger and goods motor vehicle;
- goods purchased ex-traders' duty-paid stock (not eligible for refund of duty-consumable articles).

Other investment in the production sector

Even where investment is not geared entirely to the export sector, such as in several manufacturing activities, fisheries and agriculture, there are a number of incentives provided by the Government. For new projects in manufacturing, fisheries or agriculture the Government provides the following tax concessions:

- tax concessions for a period of three years, with provision for a further two periods of five years;
- export incentives for eight years, in the form of a rebate on tax

chargeable on export profits, subject to the condition that 30 per cent of total output is exported;

- accelerated depreciation allowances on plant, machinery and factory buildings;

- for expenditure incurred in promoting Fiji products abroad, a 150 per cent deduction from Export Income under the Export Promotion scheme;

Customs concessions in these sectors include:

- in manufacturing, duty-free, but 10 per cent VAT, on all imports of raw materials, packaging and capital goods;

- in fisheries, 5 per cent fiscal duty, no fiscal duties on fish bait or fish-processing equipment, but 10 per cent on freezing equipment. Ten per cent VAT on all imports;

- in forestry, no fiscal duty on sawmilling and logging equipment, upon recommendation of the Conservator of Forests.

Hotel investment

Concessions desscribed below apply to new hotel developments. Slightly different benefits exist for major extensions to existing hotels.

Income tax concessions:

- Assistance under the Hotels Aid Act, i.e. 55 per cent capital cost write-off;
- accelerated depreciation allowance on capital expenditure on buildings and equipment;

- carry-forward of losses;

Customs concessions:

- 10 per cent fiscal duty and 10 per cent VAT on imported building materials, imported furnishings and water sports equipment;

- 5 per cent fiscal duty and 10 per cent VAT on imported heavy equipment used in construction, provided that it is reexported upon completion.

Other measures

There exist double taxation agreements with Australia, Japan and the United Kingdom, under which exemptions or tax concessions granted by the Fiji Government are not negated.

Fiji permits the easy repatriation of capital and profits. In certain circumstances, dividend interest or royalty withholding taxes may be waived or reduced. Tax relief on export profits and approved expenditure on export development work is also available. Exporters are also allowed to retain offshore accounts for up to 10 per cent of exports.

In addition to tax incentives, the Fiji Electricity Authority gives discounts to manufacturers who are high-level users. Discounts need to be negotiated and eligibility requirements apply.

A variety of minor schemes and initiatives have been launched or are under way which will further enhance Fiji's capacity to generate export earnings. These include the retention of local art and craft skills which will be used to make Fiji crafts.

Results of policy

The results in terms of investment generated in the first five years of operation of the TFF/TFZ scheme were extremely encouraging. At the end of 1992 there were 119 tax-free factories, employing 11,877 workers, accounting for 16.6 per cent of total formal sector employment. Most of these factories are located in Suva and in Lautoka on the Western side of the main island of Viti Levu. Information on TFF and Non-TFF projects implemented in 1993 is provided in the table below. It should be noted that these figures do not include either 1992 projects that have been implemented or 1993 projects that have as yet not been implemented.

TFF and non-TFF projects implemented in 1993

	Number of projects	Value of projects (F$ million)	Number employed in projects
TFF	16	6.5	1 244
Non-TFF	87	34.2	815
Total	103	40.7	2 059

Source: Fiji Trade and Investment Board.

Other measures and incentives for enhancing export capabilities

Trade agreements

As a small developing country, Fiji has been given preferential access to the markets of many countries under a number of preferential trade agreements. Local business operators may export under preferential agreements, depending on the region to which they export. The three main preferential trading arrangements are the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), the ACP-EEC Convention of Lomé IV, and the generalized system of preferences (GSP). In each case, local producers must satisfy a series of conditions in order to get preferential treatment.

SPARTECA is a regional arrangement btween Australia and New Zealand, on the one hand, and the Forum Island countries (of which Fiji is a member State), on the other. It has the following major provisions:

Product coverage: All exports from Fiji to Australia are covered, other than those where special industry policies apply (steel, sugar and motor vehicles). For this last group, Fiji content is included as part of Australian content in the Australian motor vehicle plan. There are no exclusions for exports to New Zealand.

Rules of origin: Goods and produce must meet the rule of origin requirements. Goods classified as originating from Fiji are:

- raw or unmanufactured products;
- manufactured goods, if:
- the last manufacturing process took place in Fiji; and
- at least 50 per cent of ex-factory cost of goods is represented by labour and/or materials from Fiji and Australia, if exported to Australia; or
- Fiji content exceeds 25 per cent and New Zealand content is traded duty-free and unrestricted under ANZCERTA in order to achieve the 50 per cent rule, if exported to Australia.

A similar provision exists for the inclusion of Australian content for export to New Zealand.

Beneficial treatment: Unrestricted or concessional (duty-free) access to markets in Australia and New Zealand duty-free except for those products where special industry policies apply.

This particular treaty has been of great importance to the development of the export sector from Fiji following the establishment of the Tax-Free Factory scheme in 1988. It was the liberalization by New Zealand and subquently by Australia of rules concerning imports of garments that was one of the main catalysts in the success of the TFF scheme. Without this liberalization of the Australian and New Zealand markets in the late 1980s it is doubtful whether the scheme could have been so successful.

The two other trade preference schemes mentioned above are open to many developing countries and it is unncessary to describe them here.

Training

The Government also actively encourages the development and expansion of skills. Education is an important aspect of government policy and comprises a major part (sometimes up to 20 per cent) of the budget expenditure. There are five main training institutions: the Fiji Institute of Technology, the University of the South Pacific, the Fiji College of Agriculture, the Fiji National Training Council (FNTC), and the Fiji Garment Training School (FGTS). The last two specifically provide training which has the potential to advance Fiji's export capabilities. FNTC provides a variety of courses on sales and marketing and international marketing. FGTS offers training in many aspects of garment making and provides a ready pool of trained workers for the garment industry.

Other measures and incentives for strengthening export marketing and distribution

Export financing

Fiji's commercial banks, through the Reserve Bank of Fiji (RBF), offer concessional rates of interest to eligible exporters, in accordance with the Export Incentive Scheme. There are two financing facilities available:

- *Pre-shipment finance*: Covers the period required to bring the products to an exportable stage. Finance is available in two forms: one for exports based on pre-arranged contracts and the other for exports originating from stock, which may be financed through a lump sum or under the 90-day facility;

- *Post-shipment finance*: Covers the period from shipment or despatch of goods to receipt of payment by the exporter and is available for 180 days.

FRB refinances the loan at 2 per cent below the maximum rate, which is currently 7 per cent. At present the market rate is 14 per cent.

Eligibility requirements: Qualified exporters who produce or manufacture for export, except producers of traditional exports, provided they satisfy value added requiements (at least 40 per cent local value added). All exporters qualify for post-shipment finance provided they satisfy value added requirements.

Forward exchange cover

Forward exchange cover provides an exporter with protection against any adverse movements in relative exchange rates and is available at concessionary rates under the SPARTECA and Lomé agreements. Discount rates for forward exchange cover are available principally to large-scale exporters and vary greatly. Discounts can go as high as 70-80 per cent, which is equivalent to a 50-point discount for a 30-day forward exchange.

Marketing services

FTIB engages in a variety of marketing services, including: trade publicity for Fijian exports; organization of trade fairs; investment promotion missions; trade and investment inquiries. FITB also acts as the contact point for the South Pacific Project Facility (SPPF), the Centre for the Development of Industry (CDI) and the Forum Secretariat. The SPPF has been recently established by the World Bank and IMF to help develop, fund and implement projects via small-to-medium sized enterprises in the private sector. Benefits include services such as technical assistance on the operation of small business, advice on export marketing, and sponsorship of training programmes to develop entrepreneurial skills.

Article VIII(5) of SPARTECA provides for trade promotion and marketing assistance to Forum Island countries' exporters. This assistance is funded by the Australian Department of Foreign Affairs and Trade and is provided under various aid programmes. Funds are made available to exporters in helping them set up or expand markets in Australia and there is also financial support for trade displays, sales missions to Australia, provision of marketing advice, seminars and promotional material.

In the 1990/91 financial year, Australia allocated $A 500,000 to these activities, and New Zealand $NZ 150,000. Australia also funds the South Pacific Trade Commissioner in Sydney. The South Pacific Trade Commission provides the following services: market research; marketing planning; customer identification; trade displays; secondment; and financial assistance. The South Pacific Trade Office in Auckland provides essentially the same services but does not arrange attachments.

The European Union's Centre for the Development of Industry in Brussels provides assistance for local business in the form of training, technical and other assistance, as well as help with feasibility studies.

The Marketing Support Fund funded by the Forum Secretariat encourages producers to export to other Forum countries and to other beneficiaries of SPARTECA, Lomé and the GSP. Fund are provided to exporters to help them initiate and develop exports. They are mainly used to help exporters undertake market research and help produce promotional material. Exporters must be able to show evidence of research into the markets they wish to approach. Substantial assistance is also provided in this area by the European Union through the Lomé Convention.

IV. PUBLIC AND PRIVATE SECTOR SUPPORT SYSTEMS

Fiji Trade and Investment Board

In 1980 the Government established the Economic Development Board, which later became the FITB in recognition of the need to generate more vigorous investment activity, to expand employment and generally to fulfil the national development objectives. Its aim is to promote investment in, and development of, ventures which enhance employment opportunities, increase exports, reduce imports or are otherwise beneficial to the country. Essentially FITB is a "one-stop shop" for those wishing to invest in Fiji.

Information and services provided by FITB which support exporters include: information on overseas markets and export opportunities, together with details of various preferential trade agreements; information relevant to import/export procedures and regulations; information on local and foreign investment policies; a variety of publications on Fiji products, TFZ/TFF developments.

Fiji Development Bank

The Bank's main role is to provide funds for industrial, agricultural and fisheries enterprises. It operates a Joint Venture Loan Scheme, which also assists ethnic Fijians in participating in commercial enterprises. For example, 80 per cent of the venture cost and equity capital may be loaned to the Fijian partner, regardless of other existing loans. Different interest rates apply for different types of industry.

Private sector bodies

Fiji has a large and active Chamber of Commerce as well as a Textile Clothing and Footwear Council and a Manufacturers' Association that represents the interests of both local and foreign investors. There are also a number of international bodies, including the Fiji/Australia and Fiji/New Zealand Business Council, which meet regularly with their overseas counterparts to discuss matters of mutual interest to the business communities in their respective countries. FTIB acts as the contact point and also provides secretariat services to the Fiji/New Zealand Business Council.

V. OUTLOOK FOR EXPORTS TO THE YEAR 2000

The Government of Fiji has undertaken, since 1987, a series of economic policies that have certainly stimulated the development of the export sector. A combination of favourable exchange rate policies, the tax-free factory system that was implemented following the coups of 1987 and the decline in real wages created a very favourable investment climate, which was in large measure responsible for the emergence of the manufacturing export sector. This must also be seen in the light of the changes in access provisions to the New Zealand and Australian market that occurred after 1987. What these permitted was an extraordinary development of the TEF system, especially in the low-wage garment sector.

Garment exports rose from virtually nothing prior to the coups to $90 million by 1991. There has recently been a plateau of exports from this particular sector, which has been largely caused by the recession in the main export markets. However, this industry remains an important source of employment and foreign exchange earnings.

In the last few years the Government has been encouraged by early signs of diversification of the export sector towards new products. In particular, there appears to have been an increase in the number of facilities for export to the United States market as well as production of footwear and furniture. Another area where there has been a substantial increase and diversification of export activity has been fish products for export to the United States and Japanese markets.

With the liberalization of markets and the increased competitiveness of the Fiji economy as a result of the economic reforms put in place, a gradual expansion of the export sector is expected in the coming years. The Government is also attempting to develop new bilateral trade agreements with Australia and New Zealand, which it is hoped will further enhance Fiji's exports to those markets. While strengthening traditional trade links with Australia and New Zealand, the Government is also attempting to diversify export markets through the promotion of trade with Asian countries.

There have also been several important developments in the last few years in other sectors which will shape the development of the Fiji export sector towards and beyond the year 2000. The most important of these are indications that the Canadian company Placer Pacific, a subsidiary of Placer-Dome, is likely to proceed with the development of the huge copper gold deposit at Namosi, some 35 km from the capital Suva. Should it do so, Fiji will have the biggest copper mine in the Asia-Pacific region, with important effects upon the development of the export sector, further diversifying the Fiji export base. While there is currently a small gold mine operating in Fiji, the Namosi project would make copper and gold the nation's largest exports, even larger than sugar, which has traditionally dominated the exports.

In the tourism sector there have been several important and positive developments that will enhance Fiji's capacity in an area where it has a demonstrated commercial advantage. First, Air Pacific, the national carrier, is beginning a direct weekly service to Los Angeles, which is expected to substantially increase the number of United States recreational visitors. Second, Korean Airlines is expected to begin air services to Fiji from Seoul in 1995. Also with the increase in tourism from East Asia, Air Pacific is also planning a direct service to Hong Kong and other Asian destinations, which will further strengthen existing trade links with Asia.

STRATEGIES FOR EXPORT SECTOR DEVELOPMENT AND MARKETING IN INDIA

B. Bhattacharyya[*]

I. THE ECONOMIC BACKGROUND

In the early 1950s, India was one of the leading developing countries, with a share of more than 1 per cent in global trade. By the time it became independent, it had accumulated huge sterling reserves, amounting to Rs 17,360 million. Consequently, foreign exchange was of least concern. India, from the beginning, had embarked on a centrally planned development strategy. The First-Five Year Plan started in 1951. The planning model used in the Second Plan was of Soviet type, which emphasized import substitution and creation of a base of heavy industries. This strategy led to a sharp deterioration in the balance of payments. As a consequence, in the Third Plan, the Government, while still following the same basic strategy, introduced several export promotion measures. While these measures did increase exports, they were insufficient to finance escalating imports required for investment. The proportion of imports financed by exports dropped drastically to 61 per cent in the Third Plan from 85 per cent in the First Plan. As a result, when the Fourth Plan was launched the rupee had to be devalued. However, the impact of devaluation could not be sustained due to the inability to manage the domestic price situation (for basic data on India's foreign trade, see annex I, table 1).

From the Fifth Plan (1974-1978) to the initiation of the reform process in July 1991, government policy was basically one of import substitution and creating simultaneously a policy package for export which would at least nullify the implicit anti-export bias of the import substitution policy. This had three consequences: first, exports did start responding, though inadequately; second, the export promotion schemes became all-pervasive, non-transparent and complex; third, the cost of export promotion became progressively higher than the Exchequer could bear. The end result was that in 1990/91, India had a balance of trade deficit of Rs 19,640 million, with foreign exchange reserves amounting to only Rs 43,880 million. The proportion of imports financed by exports stood at 75 per cent. While the share of India in world exports had declined to less than 0.5 per cent.

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The poor record of India's exports seems to be due more to wrong domestic policies than to external factors. The large domestic market, which was totally protected, provided a non-competitive and highly profitable market to local firms. The poor statistical fit between world trade and India's exports almost throughout the post-independence period indicates that for a marginal exporter like India external demand is not the determining factor. To reverse the export trend, a paradigm shift in export-import policy was, therefore, needed, which the Government introduced in 1991 as part of its structural Reform.

II. STRATEGIES FOR EXPORT EXPANSION

The policy framework

Brief evaluation of the pre-reforms strategies

Export promotion strategy, prior to the economic reforms initiated in 1991, focused on improving the competitiveness of exports. Lack of uncompetitiveness could basically be attributed to the inward-looking policies pursued that restricted competition. The policy relating to the Monopoly Houses led to a situation where industrial licenses were often given for a plant size which was uneconomic. Even in the area of consumer electronics, where size is of critical importance in minimizing costs, in an era when colour television sets were first introduced in the Indian market, a large number of industrial licenses for small capacities were issued, with predictable results.

The restrictive import regime, in terms both of access to cheaper and better quality machinery and industrial intermediates, as well as of astronomically high import tariffs, also had adverse impact on the costs and efficiency of local firms. While domestic industry was insulated from external competition through the protective import regime, domestic competition was also throttled, through macro-level investment planning. The Government estimated what would be the level of demand in a particular product/sector and issued letters of intent, only up to that level.

Several large firms managed to secure these letters of intent but never followed up until actual production capacity. The rationale for this behaviour was to create an artificial mismatch between domestic demand and supply and reap the benefit of higher prices.

India's fiscal system, with its inordinate dependence on indirect taxes, also created its own backlash in terms of cost-price escalations. This also restricted the growth of the domestic market, which otherwise could have provided the spark for increased investment and capacity.

Since the macro-economic policy regime created an economy which was high-cost and inefficient, export promotion was sought through micro-level strategies. This obviously meant identification of those products which the Government considered should be promoted and designing of a mix of incentives geared to that objective. This mix of incentives, though subject to several adjustments over the years, broadly consisted of the following:

Fiscal incentives: For a very long time, the major instrument for promoting exports was the scheme of Cash Compensatory Support (CCS). The rationale of the scheme was to compensate exporters for the unrefunded portion of indirect taxes under the Duty Drawback System. However, as the scheme developed over the years, it embraced a substantial degree of incentives over and above the compensatory element. The CCS rates were not uniform; higher rates were paid to those products whose export potential was rated to be bigger. Another fiscal concession, which again has gone through several modifications, relates to exemption of export profits from income tax. While it was initially of restricted scope, its orbit has since become much wider, providing total tax exemption. Another important fiscal benefit is the almost universally used method of duty drawback under which the customs duties paid on exportables are refunded. Finally, tax concession for exports are also given, in the form of exemption of exports from sales tax.

Incentives through import policy: The restrictive import regime created a premium for import licences. Under the import policy, preferential access to imported goods was introduced at the initial stage to facilitate export production. But again, over the years and in various forms, the import licences were made transferable, the objective being that the licences which carried a scarcity premium could be sold in the market by the exporters, thereby adding to export profits. The advantage of this form of export subsidization over fiscal concessions/subsidies is that while with the latter the Government either loses revenue or incurs expenditure, with the former, the users of foreign exchange subsidize the earners of foreign exchange.

Export finance: Inflation in India, though much lower than in many other developing economies, has been around an annual 10 per cent on a trend basis which is much higher than the rate prevailing in most developed countries. The cost of credit has to reflect the rate of inflation to some extent, even in an economy like India, where interest rates are administratively managed. This obviously meant that the cost of rupee financing at least in nominal terms, was quite high in India. To support the export sector, it was therefore necessary to provide export credits at concessional rates of interest. Since the Commercial banking system was not ready to give export credits at rates which were uneconomic, interest rate subsidy had to be given through a centrally-managed refinancing system.

Post-reforms scenario: India was on the verge of bankruptcy in 1990-1991 when, due to several factors, but mainly fiscal profligacy, it was faced with the prospect of defaulting on international commitments. Foreign exchange reserves were almost exhausted, the country's credit rating was down, and borrowing was only possible on the basis of gold reserves that had to be shipped abroad. It is possible that, apart from any ideological shift that might have taken place, this external stock provided the basic momentum for the initiation of large-scale reforms.

Even before these reforms, it was clear to many observers that the export-incentive system that had been operated was no longer feasible, because of the excessive fiscal burden it had been causing. Export subsidy in the form of CCS, in conjunction with food and fertilizer subsidy, was almost equal to the total budget deficit of the Government (see annex I, table 2). Worse, since CCS was expressed as a percentage of f.o.b. exports, any increase in export value caused a proportionate increase in CCS disbursements and a consequent escalation of the burden on the Exchequer. Obviously, an alternative policy instrument was called for.

Use of exchange rate mechanism: Since the total incidence of all export subsidies was estimated to be around 20 per cent, it could be argued that devaluing the rupee by the same order of magnitude would maintain the export price competitiveness at the same level. In addition, since the reform process also involved a paradigm shift from an administrative micro-level policy regime to a generalized market-driven policy framework, the importance of the exchange rate as a determinant of trade flows increased in the post-reform period. The practical possibility of using the exchange rate as a determinant of trade flows depended upon the extent to which the rupee, which was a non-convertible currency, the external value of which was strictly monitored, could be allowed to find its own level and on whether, and in what time frame, convertibility could be introduced. It was clear from the very beginning that the trade policy reforms, on which the Government initially focused, would have to look at the totality of the policy package, viz., quantitative and administrative controls on imports and exports, the tariff structure and the level of tariffs, and controls on foreign exchange, in addition to the initial devaluation of the rupee, undertaken to take care of the existing overvaluation and to enable the currency to float freely. The Government adopted an incremental approach with respect to all these issues. To begin with, the rupee was devalued in two stages - on 1 July and 3 July 1991 - by about 18-20 per cent against major currencies. The two-step devaluation was possibly done to test popular reaction to devaluation, which is a politically sensitive issue in India, even at the best of times. Immediately after the devaluation, trade policy changes were introduced. One major change was the abolition of CCS and introduction of partial convertibility of the rupee. Though the term "partial convertibility" was used by the Government, it was not technically correct. Prior to the reforms, all foreign exchange earnings had to be surrendered to the Reserve Bank of India. In the initial phase of liberalization, exporters were required to surrender 40 per cent to the Reserve Bank at the official rate while the residual 60 per cent could be sold at the market-determined rate. Hence this did not really constitute partial convertibility, but allowed market to determine the exchange rate for part of the transactions current account. Though many feared that the rupee would crash in the market-determined segment, it showed remarkable strength after an initial dip.

This emboldened the Government to proceed towards "full - convertibility" on current account. The logic behind this was two-fold.

First, the dual rate was in fact a tax on exports, as exporters had to sell 40 per cent of their foreign exchange earnings at the official rate, which was 10-15 per cent lower than the market rate. Second, full convertibility on the current account would be the next step forward in deregulating the external sector of the Indian economy. Accordingly, the dual exchange rate system was abolished and a unified exchange rate system was introduced in the budget for 1993/94. Experience since then shows that the rupee has remained very stable against major currencies. In fact, in recent months, the Reserve Bank of India has had to repeatedly intervene in the foreign exchange market to prevent the rupee from appreciating (see annex I, table 3).

Liberalization of the import regime: Simultaneously, large-scale delicensing was undertaken to free imports from administrative-*cum*-quantitative controls. During the last three years, under the five-year Export-Import Policy 1992-1997, practically all imports, except consumer goods, have been made free of licensing requirements. Public sector enterprises, like State Trading Corporation and MMTC Ltd., which enjoyed monopoly rights to import bulk import items, now have to compete with the private sector. Imports of gold and silver have been liberalized, which has curbed smuggling considerably. The export orientation of the import policy was strengthened by introducing flexibility in the schemes of duty-free imports for export production, as well as by simplification of systems and procedures.

Import duties were also brought down successively - from a peak rate of over 150 per cent in the early 1990s to 65 per cent in 1994. It has to be appreciated, however, that freeing imports reduces the premium attached to import licences and to that extent export subsidization through preferential import licences to exporters becomes difficult. This is what is happening in India now. Under the Export-Import Policy, export houses are entitled to special import licences, the value of which corresponds to a percentage of their actual exports. These licences, which can be used to import a wide array of products, are transferable, but their market premium is quite low, because even without them importers could have access to international sources. To increase export profitability, it was decided, effective April 1994, to include some consumer items which could be imported under these licences, the rationale being that since there is a large pent-up demand for such consumer goods, the market will be ready to pay a higher premium for the import of these goods, which otherwise would not be available.

Relaxation of export controls: Alongside the changes in import regime, physical controls on several exports, especially of agricultural products, were removed. The restrictions imposed in terms of "minimum export price" have also been relaxed. One important result of these policy changes has been the growing internationalization of India's agricultural sector. Historically, it had enjoyed negative protection. As the trade in agricultural products is liberalized through the trade policy reforms, as well as a consequence of the Uruguay Round, India's agro-exports should receive a boost. The elimination of the export subsidy system in the rise of the exchange rate, the principal determinants of export profitability, have also helped agro-exports. Since the net impact of depreciation on export profitability in a subsector basis depends on its import intensity, and the import-intensity of the agricultural sector is very low, it has been a major beneficiary of the current policy regime. This stands in contrast to the manufacturing sector, which traditionally received the maximum share of budgetary support for export.

Impact of the new policy: The impact of the trade policy reforms, at least on exports, appears to be substantial. In the first year of reform exports grew only 3.8 per cent in nominal dollar terms, a result which possibly was conditioned by several adverse factors, including the collapse of exports under the Rupee Payment Arrangements to the former USSR. In the second year, however, the exports rose substantially by 20 per cent (again in nominal dollar terms), a rate which is higher even than achieved by the major South-Eastern Asian countries. While it is true that some of this growth reflects the low initial base, as well as the availability of exportable surpluses of several items due to sluggish domestic demand, there is no doubt that it represents a break from the past.

However, one critical factor is that, despite their large-scale liberalization, imports have failed to pick up. The underlying factors to appear to be several. The devaluation has definitely made imports costlier, as the reduction in import duties could not fully compensate, and industrial recovery has been weak. But there may also have been the beginning of a structural shift: growth has been relatively higher in sectors (such as agriculture, services, and industries such as textiles and clothing) where import intensity is lower than the national average. The combined effect of the rise in exports and stagnation of imports has been a substantial improvement in the balance of trade.

Sustainability of export performance

The reform process cannot be continued unless the external sector's viability is ensured. While in the last two years the current account balance has improved and foreign exchange reserves have swollen, that does not necessarily mean that the trade sector has fundamentally responded to the new policy environment. A closer look at the policy implications for exports is consequently called for. The major policy implication of the substitution of product-specific export subsidies by a general instrument like the exchange rate is that the product composition of a country's exports should change. A uniform incentive system, via the exchange rate, is expected to boost exports of those products in which the country currently enjoys comparative advantage. In the case of India, this will imply exports of agro-products and labour-intensive manufactures. Whether this is in fact happening, and if so, what are the long-term implications needs to be considered.

In this regard, table 1 shows the commodity structure of India's exports since 1985/86. It can be seen that there has been a major transformation in the structure: the share of agro-products declined from 27.7 per cent in 1985/86 to 19.4 per cent in 1990/91, while that of total manufactures increased to 73.4 per cent, from 58.5 per cent. Simultaneously, the share of high technology products also increased, to 18.4 per cent from 13.3. per cent. This trend seems to have continued in the post-reform period, except that the pace of change has slowed down for agriculture and total manufactures. Moreover, the rising trend for high technology exports seems to have reversed.

Admittedly, two years' data are insufficient to judge with certainty whether any structural shift has been taking place, but data on the first six months of 1993/94 seem to confirm that a shift possibly is taking place. There has for the first time been a reversal of the trend for agricultural exports. Agro-exports accounted for 17.8 per cent of total exports during the first six months of 1993/94, against 15.7 per cent in the corresponding period of the previous, while the proportion for manufactures declined to 75.5 per cent from 77.0 per cent. It seems likely that this shift in the composition of exports will be confirmed over time, if the present policy regime continues. The question, therefore, is whether this shift is really desirable.

That share of agro-exports will increase somewhat is beyond doubt, because quantitative restrictions on several agricultural products are being dismantled. Coupled with the increased market access under the Uruguay Round, there is bound to be progress towards greater internationalization of India's agricultural sector. But that by itself does not necessarily mean that agro-exports will bring about a quantum jump in exports. A close look at the export performance of some of the major export products points out to one reason for this assertion. Export revenues are a function of the quantities exported and their price. Estimates of the volume and price effects for the major agro-commodities exported during the period from 1990/91 to 1992//93 are presented in table 2.

It can be seen that much of the export expansion has come from price increases. For example, in the case of tea, earnings rose only 1 per cent, but this was the result of an 11 per cent increase in unit prices and a decline of 9 per cent in volume. The price effect has also been dominant for cashew kernels. Price and volume effects were more or less of equal magnitude for spices, oilcakes and marine products.

These data raise the issue whether agro-exports can be sustained in the longer term. The votality of agricultural commodities vis-a-vis manufactures has been documented by many researchers to prove that the intensity of price fluctuations of these commodities is much higher. Further, price and volume fluctuations quite often work in the same direction resulting in larger fluctuations in the export earnings. Third, though the issue is still being debated, there is some evidence that the terms of trade are turning against agro-exports, although the situation may be reversed as a result of the Uruguay Round. Removal of subsidies on agriculture in the developed countries can have a positive price impact on tradables, apart from increased market access, though to what extent depends on the marketing strategies and profit/turnover objectives of the agro-exporters in the developing countries.

Apart from these disturbances, which are exogenous to Indian agriculture, the real barrier to sustainability can come from the inability

Table 1: Commodity structure of exports

(Percentage of total exports)

Year	Agriculture & allied products[a]	Manufactures[b]		
		Total	High-technology products[c]	Other manufactures
1985/86	27.7	58.5	13.3	45.2
1990/91	19.4	73.4	18.4	55.0
1991/92	18.7	74.2	24.2	50.0
1992/93	17.6	75.6	20.7	54.9

Source: Derived from data given in Government of India, *Economic Survey*, various years.

[a] Primary and processed products.
[b] SITC 5-8.
[c] Chemicals and allied products, machinery, transport equipment, steel and electronics.

Table 2: Change in export earnings from major agricultural commodities, 1990/91 to 1992/93: price and volume effects

(Percentage)

Commodity	Increase in earnings	Of which due to:	
		Prices	Volume
Tea	1	11	-9
Spices	58	25	26
Cashew kernels	69	59	6
Oilcakes	146	61	67
Marine products	82	36	34

Source: As for table 1.

to expand exportable surpluses over the long term. Increased domestic demand for tea, for example, is continuously reducing the surplus available for export. Productivity gains in several other agro-products do not inspire confidence regarding sustainability. The declining share of India in world exports of some major agro-products is a reflection of India's inability to keep up with other competitors (table 3).

Table 3: Share of India in world exports of selected commodities

(Percentage)

Product	1970	1980	1990	1991
Sugar & honey	1.0	0.3	0.0	0.0
Tea & mate	31.3	27.7	21.7	18.6
Spices	20.5	14.5	7.7	8.7
Tobacco	2.5	4.4	0.8	0.8

Source: *Economic Survey 1993/94*, Government of India.

World demand for labour-intensive products is not increasing fast and increased competition in such products can be expected from other developing countries. Since trade should ultimately result in societal development through higher wages for labour, it is doubtful whether this product group can be the main stay for India's continued export expansion. The experience of successful exporting nations shows their resilience in continuously upgrading their exports. The current policy environment is neutral in this respect and there is accordingly a risk of its leading to deindustrialization.

Historically, as was observed above, India's export performance has possibly been more conditioned by domestic supply constraints than by external demand. If this hypothesis is correct - and there is some empirical support for it - the focus of intervention in the market has to be strengthening the supply base, i.e., encouraging investment and export production. One economic fall-out of policies based on import substitution is that investment gets channelized to that sector, because of its since the relative profitability. Investment in export production is also affected due to the implicit anti-export bias of the macro-policy environment. The first necessary step to facilitate investment and export production is to establish a policy framework which will make such investment economically attractive to the private sector.

Policy framework for investment

Industrial policy since 1991 has been substantially relaxed, paving the way for the participation of the private sector in almost all areas, except for six sectors which have been kept reserved for the public sector. All large industrial undertakings are exempted from industrial licensing requirements, except for investment in 15 sectors. Small and ancillary sector units are exempted from all licensing requirements. Several restrictive conditions earlier imposed, viz., imposition of export obligation, prescription of foreign exchange neutrality, restriction of access to domestic financial institution etc., have been removed.

Other changes include rationalization of excise duties on capital goods and reduction of import duties to lower capital cost with a view to stimulating investment. To increase the availability of bank credit, CRR and SLR were reduced, and to reduce the cost of bank credit, the minimum lending rate was also lowered.

One important scheme specifically geared to export production is Export Promotion Capital Goods Scheme (EPCG). Under this scheme, manufacturing firms can import capital goods at a concessional tariff rate of 15 per cent as against the 65 per cent general rate, on condition that they export four times the c.i.f. value of imports over a period of five years. This scheme has proved to be popular especially with small and medium-sized enterprises, and the bulk of preferential imports of capital goods have gone to strengthen the export production capability of sectors such as leather and textiles. The rationale behind this scheme is that the project cost of export-oriented industries would be minimized if their global competitiveness is to be assured. Since high import duty can *ab initio* make a project uncompetitive, this is obviously an important policy instrument.

However, there is scope for further fine tuning of the scheme. Calculations made on the basis of data derived from the scheme's operation reveal that for every rupee of additional export to be generated, the Government is sacrificing 0.13 paise (i.e. 13 per cent for every dollar earned). This appears to be on the higher side. Obviously, the trade-off is high because the tariff level in India is very high. Nevertheless it is possible to reduce the subsidy element by increasing the export obligation and extending the time frame for meeting it, without in any way reducing the financial attractiveness of the scheme.

Policy relating to FDI

Foreign direct investment traditionally was never accorded priority in India's development strategy. There has been a total turnaround in this perception since 1991 and the Government now actively pursues a policy of attracting FDI. The reasons for this change of attitude are many and complex, but the most critical points appear to be the desire that the debt profile of the country should not be allowed to deteriorate further, that given the low credit rating it is difficult to borrow funds even otherwise, and that servicing of equity may be less costly than servicing of debt.

It was also realized that the country needs massive capital inflows, especially for the financing of infrastructures; export expansion will be limited if basic infrastructure requirements in such areas as power, transport and telecommunications services cannot be provided. As a result, the New Industrial Policy, 1991, provides a very liberalized policy framework for FDI, the basic features are as follows:

- FDI in 35 priority sectors is given automatic approval by the Reserve Bank of India, if the foreign equity participation is less than 51 per cent;

- All other proposals are considered by the Foreign Investment Promotion Board (FIPB), a high-powered body located in the Prime Minister's Office which began functioning in July 1992. FIPB is specially empowered to "engage in purposive negotiations" and also consider proposals "in totality, free from pre-determined parameters or procedures". No formal application forms are prescribed nor is any fee payable.

  Since 23 September 1992, the Government has constituted an Empowered Committee to deal with

FDI proposals recommended by FIPB in which total investment is up to 300 crores. Proposals involving total investment beyond 300 crores are submitted to the Cabinet Committee on Foreign Investment.

The objective of this administrative mechanism is to provide a flexible policy regime as well as to reduce the time lag between the receipt of a proposal and a decision on it;

- Initially, the Policy provided for dividend balancing, i.e., a firm has to earn the same amount of foreign exchange through exports as it would spend on repatriation of dividends. Subsequently, as a further measure of liberalization, this condition has been dropped except for 22 consumer goods;
- In order to provide access to the capital market and to encourage modernization and technological upgrading in the small-scale industry sector, equity in that sector is allowed, not exceeding 24 per cent of the total shareholding by other industrial undertakings, including foreign collaborators;
- The Reserve Bank of India accords automatic approval to all industries for foreign technology agreements within prescribed monetary/royalty limits, i.e., those involving a lump-sum payment up to Rs 10 million, 5 per cent royalty for domestic sales and 8 per cent for exports, subject to a total payment of 8 per cent on sales over a 10-year period from the date of agreement or 7 years from the commencement of production. The prescribed royalty rates are net of taxes.

Impact of the FDI policy

The liberal policy framework has definitely helped in attrac substantially more FDI to India, compared to the past. Total approved during the whole of 1981-1990 amounted to Rs 11,506 million. This can be compared to approvals since implementation of the new policy: Rs 5341.1 million in 1991; Rs 38,875.4 million in 1992; and Rs 88,528.5 million in 1993.

Actual inflows have been also increasing. The inflow in 1991 amounted to Rs 3,514 million, increased to Rs 6,752 million in 1992 and to Rs 16,174 million in 1993 (up to November). More than 80 per cent of the investment has gone to the priority sectors.

Even though, on an intertemporal basis, the performance appears to be credible, there are two weak points. First, the funds actually received are less than 20 per cent of the total FDI approved. It is true that in the initial years, the ratio can be expected to be low because many projects, especially the major ones, take a long time to materialize. Nevertheless, the ratio appears to be on the low side. Moreover, in comparison with that of some other developing countries of the region, the flow of FDI to India is very small. For example, China received FDI commitments of $57.5 billion, of which $11.2 billion actually materialized in 1992. In the first three months of 1993, FDI pledges soared to $25 billion, while over $3 billion had been invested.

Export marketing capability development

The Ministry of Commerce has at various times attempted to devise schemes for developing export marketing capability at the firm level. There was once a scheme under which a firm was entitled to a higher rate of import licensing if it exported either a new product or developed a new market, both defined by the Ministry of Commerce. The impact of the scheme appears is doubtful. There was also a scheme of brand publicity, under which a firm seeking to publicize its brand abroad was eligible for a financial subsidy. Very few firms used the facility mainly because the scheme was introduced at a time when Indian firms were just beginning to sell their products abroad; they would have to market their products and that would require developing and promoting distinct brand identities, a concept which was not understood or, if, understood, incapable of being acted upon due to the low resource base of most firms. This concept is now gaining acceptance in India's large corporate sector. In fact, an idea has recently been mooted by the industry that the Government should select a few Indian brands which have regional/global potential and create a fund for realizing actualizing this potential. Creating global brands exclusively by Indian firms will be difficult because of the enormous costs involved, which even on a conservative basis are estimated to be of the order of $100 million over a period of five years.

Considering the importance of quality upgrading, a scheme has been recently introduced under which firms securing ISO 9000 certification will be allowed a higher rate of import licensing. While the idea is laudable, it is clear that firms' motivation to secure this certification will hardly be influenced by such schemes.

In sum, it appears that though several schemes were launched, their overall impact on firms' export marketing capability had been minimal. Government intervention at a macro level, on the other hand, has been useful. For example, the Tea Board's scheme to introduce Darjeeling and Assam Logo for denoting the purity and quality level of exported tea has created awareness of the uniqueness of Indian tea varieties.

Public and private sector support systems

Over the last four decades, India has developed possibly the world's most comprehensive institutional public support system for export development. Nineteen product-specific export promotion councils (EPCs) and since Commodity Boards were set up. Export Promotion Councils are partly financed by the Government and partly by the trade/industry. The mandate for these bodies essentially covers a wide spectrum of activities related to the development of trade and providing specific services to their members (for details see annex II). In addition, there is a Federation of Export Organizations (FIEO), an apex body of all export promotion organizations. During a particular period, in line with the political philosophy of the ruling party, about 20 state-trading organizations were established with a view to having a semi-government monopoly of foreign trade through these organizations.

The role of the EPCs traditionally was believed to be most important, because of their product-specific support to trade, from both the public and the private sector. However, there have been serious reservations regarding the efficacy and impact of their services. It appears that in the beginning, when they were set up, and when the information requirements of the users were quite basic, they could provide a fairly useful service. However, progressively over the years, as the Government's export promotion schemes became complex and all-pervasive, the focus of these institutions shifted to how to secure more incentives/subsidies from the Government and to advise their members how to manage the complicated rules and procedures involved in securing the incentives. The export promotional role became secondary.

The major promotional activity which the EPCs undertake are trade fairs/exhibitions, publicity/publications, and seminars/workshops. However, they vary widely in terms of involvement in these activities. Providing timely information is one of their basic tasks. However, only some have newsletters, few of which are monthlies, while others are quarterlies. There is only one which is weekly. Considering that international trade requires prompt and effective information collection and dissemination, the weakness of the system is evident. One possible reason for this deficiency as well as several others, is that the staff is not professionally trained and the organizations are rather bureaucratic. A Government of India Committee set up to study trade policies also looked into the working of the EPCs. It recommended their reform and setting up of technical cells manned by experts to advise exporters. One study currently in progress in the Indian Institute of Foreign Trade has sought responses from users on the role and functions of the EPCs. Many user organizations have observed that the multiplicity of ECPs has led to the need for multiple membership, which is most often costly and not sufficiently rewarding. They agree that there should be only one organization, with which an export firm should be registered for all export-related activities.

Response to a question on the relative importance of various services in the above mentioned Study reveal that making representations to the Government or its agencies is the service which is rated the highest. It received a score of 5.05 on a 7-point scale. On the other hand, another important service, that of securing advice on the selection of export products/markets received a score of only 3.29. It is clear from the data that the EPCs did play an important role in facilitating users' interface with the Government - an activity absolutely critical in a regime of rigid control and extensive support. However, with the advent of the liberalization policy, this activity will lose its importance and the EPCs must refocus their activities on actual trade promotion.

One academic study recently concluded that there were three possible way of attaining he objectives of the EPCs. First, the councils could be strengthened and the staff made more professional. The major default at present is market research, should be the very focus of their activities. A second option is to abolish the EPCs and develop FIEO as equivalent of JETRO or KOTRA (the activities of which have been reviewed by other contributors to this volume). The third is to abolish the EPCs and leave their work to be done by the chambers of commerce.

India has indeed a strong institutional base in this last respect. According to one estimate, there are 981 industry associations and 194 chambers of commerce. Very few of them are involved in foreign trade promotion; only about 10 chambers of commerce, for example, are members of FIEO. These organizations are mostly at the regional level; at the national level, there are three bodies (FICCI, ASSOCHAM and CII) which are deeply involved in promoting international business. The *modus operandi* include, apart from making studies and inviting trade delegations, the conclusion of bilateral tax treaties, providing international commercial arbitration, etc.

Forming a joint business council with an individual trading partner country is another method used extensively. Several bilateral chambers of commerce, have also been set up, some of which are very active in promoting bilateral trade and investment flows.

Due to fiscal problems, the Government is drastically reducing its financial assistance to all export promotion agencies, including the EPCs. This has created a crisis of confidence in these institutions, as they have now to earn enough for their survival. However, the long-run impact should be positive, as it will force the institutions to slim down their size and focus on activities for which users are willing to pay. It is evident that over in the medium term, basic export support services will need to be provided by private sector organizations, with the Government's role increasing by circumscribed.

III. OUTLOOK FOR EXPORT EXPANSION TO 2000

The Government has set the target for export growth under the

Eighth Five Year Plan (1992-97) at 13.6 per cent in volume terms in (see annex I, table 4). The growth rate in 1992/93 of 3.8 per cent in current dollar terms, is estimated to have been 20 per cent in 1993/94. Projections for 1994/95 suggest that the rate may drop to 15 per cent. As the export base expands, maintaining a high rate of growth will be increasingly difficult.

The major constraints that can be visualized are:

- *Infrastructure*: Basic infrastructure (power, telecommunications and road/marine/air) must be improved, if exports are not to be handicapped;

- *Production development*: Generating exportable surpluses, especially for the agricultural sector, will require large-scale investment in improving agricultural productivity and enhancing the efficiency of land, water and fertilizer management. Changes in land laws, allowing for the corporate organization of commercial cultivation as well as contract farming, will be required;

- As the external sector moves from being enclave activity to becoming quantitatively important and integrated into the economy, macro-economic policies, rather than sub-sectoral micro schemes, for export development will become critical. This will essentially mean managing fiscal deficits and the rate of inflation and preserving a realistic exchange rate;

- Increasing regionalization of world trade and the fact that India is not a member of any large economic grouping point to the need for strengthening regional trade and investment relationships;

- Fiscal considerations, as commitments under the Uruguay Round will preclude any large-scale export support system in financial terms in the coming years. The Government's role will have to be very selective and concentrate on high-impact areas. One such area is information. The revolution in computer-based international data base has not yet effectively touched India's export sector. The Government can play a catalytic role in this field by involving trade associations/chambers of commerce in the development of a national network;

- International marketing is becoming a complex discipline, where existing knowledge quickly becomes obsolescent. Human resource development must, therefore, be accorded top priority. Networking of national training institutions, to begin with, at regional level will be a positive step.

Annex I

SUPPLEMENTARY TABLES

Table 1: India's foreign trade: selected indicators

Year	Value ($ million)			Increase (Per cent)		Export-import ratio (Per cent)	Percentage of GDP			Average rupee/dollar exchange rate
	Exports	Imports	Trade balance	Exports	Imports		Exports	Imports	Balance	
1950/51	1 269	1 273	-4	24.9	-1.5	99.7	6.5	6.5	-	4.776
1955/56	1 275	1 620	-345	3.3	11.3	78.7	5.9	7.5	-1.6	4.778
1960/61	1 346	2 353	-1 007	0.3	16.7	57.2	4	6.9	-2.9	4.768
1965/66	1 693	2 944	-1 251	-0.5	4.7	57.5	3.1	5.4	-2.3	4.786
1970/71	2 031	2 162	-131	8.8	3.5	93.9	3.6	3.8	-0.2	7.558
1971/72	2 153	2 443	-290	6.0	13.0	88.1	3.5	4.0	-0.5	
1972/73	2 550	2 415	135	18.4	-1.1	105.6	3.9	3.7	0.2	7.731
1973/74	3 209	3 759	-550	25.9	55.6	85.4	4.1	4.8	-0.7	7.861
1974/75	4 174	5 666	-1 492	30.1	50.8	73.7	4.5	6.2	-1.7	7.976
1975/76	4 665	6 084	-1 419	1.7	7.4	76.7	5.1	6.7	-1.6	8.654
1976/77	5 753	5 677	76	23.3	-6.7	101.3	6.1	6	0.1	8.938
1977/78	6 316	7 031	-715	9.8	23.9	89.8	5.6	6.3	-0.7	8.562
1978/79	6 978	8 300	-1 322	10.5	18.0	84.1	5.5	6.5	-1.0	8.206
1979/80	7 947	11 321	-3 374	13.9	36.4	70.2	5.6	8.0	-2.4	8.076
1980/81	8 486	15 869	-7 383	6.8	40.2	53.5	4.9	9.2	-4.3	7.908
1981/82	8 704	15 174	-6 470	2.6	-4.4	57.4	4.9	8.5	-3.6	8.968
1982/83	9 107	14 787	-5 680	4.6	-2.6	6.6	4.9	8.0	-3.0	9.666
1983/84	9 449	15 311	-5 862	3.8	3.5	61.7	4.7	7.6	-2.9	10.340
1984/85	9 878	14 412	-4 534	4.5	-5.9	68.5	5.0	7.4	-2.3	11.889
1985/86	8 904	16 067	-7 163	-9.9	11.5	55.4	4.2	7.5	3.3	12.235
1986/87	9 745	15 727	-5 982	9.4	-2.1	62.0	4.3	6.9	-2.6	12.778
1987/88	12 089	17 156	-5 067	24.1	9.0	70.5	4.7	6.7	-2.0	12.966
1988/89	1 397	19 497	-5 527	115.6	13.6	71.7	5.1	7.1	-2.0	14.482
1989/90	16 626	21 272	-4 646	19.0	9.1	78.2	6.0	7.8	-1.7	16.649
1990/91	1 814	24 072	-5 930	9.1	13.2	75.4	6.1	8.1	-2.0	17.943
1991/92	17 866	19 411	-1 545	1.5	-19.4	92.0	7.2	7.9	-0.7	24.651
1992/93	14 421	2 726	-3 305	3.1	11.9	84.8	7.6	9.0	-11.4	28.962

Source: Government of India, *Report on Currency and Finance* and *Economic Survey* (various issues).

Table 2: Budget deficits and subsidy

(Thousands of crores)

Year	Deficit	Subsidy[a]	Subsidy as percentage of deficit
1977/78	933	1 973	115
1978/79	1 506	1 286	85
1979/80	2 377	1 562	66
1980/81	2 477	1 555	63
1981/82	1 391	1 552	112
1982/83	1 655	1 793	108
1983/84	1 416	2 338	165
1984/85	3 745	3 431	92
1985/86	4 937	4 300	87
1986/87	8 285	4 681	56
1987/88	5 688	4 780	84

Source: Calculated from Budget Papers from various years.

NOTE: 1 crore = 10 million rupees.

[a] Including subsidies for food, fertilizer and export promotion.

Table 3: Exchange rate of the rupee

(Rupees per dollar)

Year (Monthly average)	Rate[a]	Year/month	Rate[b]	Year/month	Rate[b]
1980/81	7.908	1992/93		1993/94	
1981/82	8.968	April	25.890	April	31.311
1982/83	9.666	May	25.890	May	31.328
1983/84	10.340	June	25.890	June	31.407
1984/85	11.889	July	25.890	July	31.370
1985/86	12.235	August	25.890	August	31.373
1986/87	12.778	September	25.890	September	31.372
1987/88	12.966	October	25.890	October	31,371
1988/89	14.482	November	25.890	November	31.371
1989/90	16.649	December	26.154	December	31.370
1990/91	17.943	January	26.199		
1991/92	24.651	February	26.199		

Source: Government of India, *Economic Survey, 1993-94*.

[a] Official rate.

[b] Market rate.

Table 4: Export projections for the Eighth Plan

Commodity group	Annual growth (Per cent)[a]
Agricultural and allied products	9.4
of which:	
Tea	3.2
Coffee	2.0
Tobacco unmanufactured & manufactured	3.6
Oil cakes	7.5
Spices	3.9
Cashew kernels	9.4
Raw cotton	0.4
Rice	8.3
Marine products	8.6
Meat and meat preparations	8.9
Misc. processed foods (including processed fruits & juices)	16.1
Fruits & vegetables	10.4
Sugar & molasses	50.2
Not classified	15.1
Ores and minerals	3.1
Iron ore	0.0
Mica, coal & other ores	8.3
Manufactured goods	15.0
of which:	
Cotton yarn fabrics & manufactures	12.9
Readymade garments	16.4
Natural silk yarn, fabrics, and made ups, etc.	12.2
Manmade yarn, fabrics and made ups	9.4
Woollen yarn, fabrics and made ups, etc.	15.0
Jute manufactures	8.7
Coir and manufactures	16.5
Carpet mill-made	10.5
Sports goods	10.4
Rubber manufactured products	19.6
Glass, glassware, ceramics, refractors, cement, etc.	31.4
Leather and leather manufactures	12.2
Engineering goods	15.0
Chemicals and allied products	14.9
Handicrafts	15.9
of which:	
Gems and jewellery	16.8
Carpets, handmade	9.1
Works of art	15.2
Not classified	18.6
Petroleum, crude and products	5.6
TOTAL EXPORTS	13.6

Source: Eighth Five-Year Plan 1992-93, Government of India, Planning Commission.

[a] At constant 1991/92 prices.

Annex II

EXPORT PROMOTION OBJECTIVES OF COUNCILS ESTABLISHED UNDER THE COMPANIES ACT

Promote exports;

Undertake market studies (regular and *ad hoc*);

Send trade missions to foreign countries;

Appoint representatives/agents abroad;

Conduct promotion abroad;

Collect information abroad;

Disseminate information to manufacturers;

Lay down standards of quality and pack;

Conduct inspection intended for exports;

Depute officers to witness the survey of products in India/abroad as a result of
dispute;

Inquire into/investigate complaints of importers/exporters in respect of quality ar
other conditions;

Make recommendations to exporters/the Government/chambers of commerce

Act as arbitrator;

Communicate with chambers of commerce and other public agencies;

Offers advise and make representations to the Government, local authorities ar
public bodies on their policies;

Arrange establishment of museums, show-rooms, emporia etc., in any country

Undertake training, etc.

Source: Memorandum and Articles of Association of EPGs.

THE EXPORT EXPERIENCE OF NEPAL

Lava Kumar Devacota[*]

INTRODUCTION

From a historical perspective, it would be no exaggeration to say that trade has played a crucial and perhaps the determinant role in shaping the destiny of peoples and nations. In the recent past as well, no other single issue seems to have quite so preoccupied world leaders and dominated world affairs as that of trade. With the salubrious effects of trade on many facets of development being increasingly evident, developing countries in the Asia-Pacific region have increasingly opted for policy measures and reforms designed to facilitate a greater participation in intra-regional and global trade.

The story was rather different even up to the last decade. In the immediate aftermath of the Second World War or the attainment of independence, most of the developing countries resorted to trade policies and strategies designed to promote industrialization and development though protection and import substitution. Experience of the countries of South Asia, including that of Nepal, bears eloquent testimony to the experiment. With the Soviet Union providing the model, and with forceful opinions of eminent economists suggesting that the accrual of gains from trade was largely biased in favour of the advanced industrial countries and that foreign trade tended to inhibit industrial development, the developing countries showed strong inclinations to subscribe to the belief that import substitution would provide the necessary internal propulsion to growth and development. The pioneering work of Little, Scott and Scitovosky inspired a spate of literature, reports and studies urging development experts and planners to undertake a serious reappraisal of the policies and strategies pursued hitherto. Examples abound of internal developmental initiatives based on an inward-oriented planning and control mechanism that led to misallocation of resources, general economic inefficiency and major disappointments in respect of reaching growth and development targets.

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The World Bank's *World Development Report 1987* and subsequent research by different individuals and multilateral agencies presented cogent and impelling arguments in favour of trade liberalization and outward-oriented trade policies. Consequently, even countries with strongly inward-oriented trade policies, like India, showed a marked degree of preference in opting for a liberal trade regime with strong doses of outward-orientation. Though certain measures to improve and liberalize the trade regime had been undertaken in the latter part of the 1980s, Nepal's trade policy has undergone a complete reversal, with a major focus on liberalization and outward-orientation, since the introduction of the Eighth Plan in 1992.

Against this general background, this paper attempts to analyze different factors which have had an overwhelming impact on shaping the direction and composition of Nepal's foreign trade. The first section outlines Nepal's trade with India and Tibet as it has evolved historically and the historical and geographical factors by which it has been shaped. An abrupt jump is then made, with a review of the development plans and their impacts on the trade sector during the period 1956-1990.

The year 1990 represents a major landmark in Nepalese political history, with the restoration of a multiparty democratic system of governance. An elected Government was returned to power in 1991. The second section, therefore, commences with the period after this political change. Reform measures undertaken since then in respect of trade in general and of the export sector in particular are reviewed briefly thereafter. The Asia-Pacific region has become the world's most dynamic region in terms of intraregional and global trade. Nepal's share in and linkages to this trade are also briefly explored. Conclusions and recommendations arising from these considerations form the last section of this paper.

I. HISTORICAL AND GEOGRAPHICAL CONSTRAINTS

Nepal's location on the southern slope of the imposing mountain system that separates the Tibetan plateau from the plains of India has had an overwhelming impact on its history as a nation. The country borders India in the east, west and south and China (Tibet) in the north. Waves of migration from India and China largely populated the country. Given the physical environment of the country, characterized by a land-locked position, an extreme ruggedness of the topography and the wide diversity of physiographic and ecological features, ranging from sub-tropical lowlands to the highest peaks in the world, the migrant population settled in conditions which suited it best and mainly in isolated pockets. Consequently, pockets of settlement were highly scattered and Nepal still retains the features of a physically fragmented society, though the country underwent a process of unification starting in the mid-eighteenth century. The relative inaccessibility of the country was further reinforced by the isolationist policy pursued by the Government for a period spanning more than a century from about the mid-nineteenth century. For the economy and the people at large, there were no economic interactions with the rest of the world and Nepal was cutoff from a period of world history which, in retrospect, was probably the most formative period for development and modernization.

Trade with India and Tibet

Traditionally, Nepal's foreign trade was limited to that with India and Tibet. The geographical location of the country, in addition to the physical barriers and the nature of settlements within the country encouraged trade with the border areas for supply of basic commodities and export of surplus items. Trade with Tibet was a means of supplementing the meagre livelihood in the Himalayan and the hills region and it was mainly developed on basis of a "salt-foodgrain" nexus. Like trade with India, it was conducted at two levels: local or border trade was carried out by the people living in the border area and was, broadly speaking, subsistence-oriented and made on barter terms; official trade flowed through specified routes and markets controlled by the Government and was conducted by specialized merchants. In the case of Nepal-Tibet trade, the transit trade between Bengal and central Tibet that flowed through Katmandu was perhaps of greater significance than that of border trade. The main items imported from India and reexported to Tibet through Katmandu were pearls, coral, amber, cotton, silk and other textile goods, sugar, spices and tobacco, indigo, otter and other skins, English glassware and cutlery. Items imported from Tibet and reexported to India included gold, musk, silk, woollen and other textile goods, borax and tea. However, by the end of the nineteenth century, the Chumbi Valley route between Bengal and Tibet was opened and Nepal's role as the main transit centre for northern India's trade with Tibet declined considerably.

Most of Nepal's foreign trade was, however, with India, which was the market for a wide variety of agricultural, mineral and forest products from all over the Kingdom. Approximately half of Nepal's exports to India consisted of foodgrains grown in the Terai region. British sources of the 1870s referred to the enormous rice traffic from Nepal and the large and important trade in timber. Tobacco, ghee and hides and skins were other commodities exported from the Terai region, whereas commodities such as musk, hawk and horses from the Himalayan region and cotton, cardamon, medicinal herbs and metal goods from the Hills region also found their markets in India. At the same time, Nepal imported cotton goods, salt, sheep, goats and buffaloes for mass consumption from India. While there is no evidence of a Nepali export having reached any other countries except India and Tibet during the nineteenth century, Katmandu obtained its supply of British goods, particularly textiles. The history of trade between Nepal and India is summed up in table 1.

Nepal's external trade with Tibet and India continued on much the same pattern during the nineteenth and the first half of the twentieth century. Tibetan salt was gradually replaced by Indian salt and kerosene started to figure in Nepal's list of imports from India at the end of the nineteenth century. The list of Nepalese imports from India started to lengthen and match the diversification of the production structure of the Indian economy. The structure of Nepalese exports to India remained much the same, though the opening of the railway system in adjoining areas of India made it possible to increase the quantity of exports. Border trade with Tibet subsisted without significant changes, though transit trade stagnated.

II. DEVELOPMENT PLANS (1956-1990) AND THE TRADE SECTOR

Nepal initiated its attempts to join the comity of nations aspiring to development and change after the overthrow of the Rana regime in 1950-1951. Drawing on the experience of India and other countries in the region and elsewhere, a draft five-year plan was introduced in 1956. This plan, formulated in the absence of basic data and information and without the necessary homework, was more an expression of wishes and intents than a blue-print for hard-core action. Its most noteworthy feature was the call to review the provisions on trade and transit made along with the

Treaty of Peace and Friendship signed between Nepal and India on 31 July 1950. Of a total allocation of NRs 330 million, the trade and tourism sector was allocated an amount of NRs 1 million.

The need to diversify and expand exports has been a consistent theme espoused by the periodic plans. However, specific programmes and allocations for the development of the trade sector were made starting with the Fourth Plan (1970-1975). An amount of NRs 50 million (including NRs 40 million for construction of oil storage tanks and godowns to be financed through internal loans) was earmarked for the trade sector, out of the total developmental outlay of NRs 2,570 million. Programmes on export promotion surveys and trade promotion and international exhibitions received NRs 10 million. The Fifth Plan reiterated the role of foreign trade in the overall economic development of a country like Nepal and reemphasized the need to diversify and expand exports. Both the Sixth and the Seventh Plan evinced grave concerns on the growing trade deficits and incorporated the objective of promoting exports as one of the basic development strategies. Of the maximum development outlay of NRs 7,545 million in the Fifth Plan, NRs 30 million was allocated to the trade sector. The Trade Promotion Centre was allocated NRs ,5 million; Nepal Transit and Warehousing Ltd., NRs 10 million; Nepal Oil Corporation (for construction of oil storage tanks), NRs 10 million, with the Jute Development and Trading Corporation accounting for the remainder. In the Sixth Plan, NRs 20.6 million (out of a total outlay of NRs 21,750 million) was allocated to the same institutions, with an additional NRs 0.1 million going to a study on the strengthening of border administration. In the Seventh Plan the Trade Promotion Centre, Nepal Transit and Warehouse Ltd., Jute Development and Trading Corporation, Nepal Oil Corporation and Cottage Industry Export Promotion Scheme received a total amount of NRs 80.2 million, out of the total estimated outlay of NRs 29,000 million.

Underlying objectives and policy thrusts

An in-depth review of the periodic plans reveal that the underlying objective of all the plans has been to diversify trade - mainly away from India. The inordinate degree of dependence on India perhaps warranted and justified this move. The Treaty of Trade and Commerce signed between the two Governments on 31 July 1950 was perceived as restrictive. The draft first plan had candidly called for a review of this

Treaty, as well as of the Treaty on Peace and Friendship. After the royal take-over of 1960, the objective of diversifying trade away from India was pursued vigorously, albeit in a manner designed to cause least or no offence to India. Expansion and diversification of exports, as consistently emphasized by the periodic plans, were largely seen to be in harmony with and to promote the objective of reducing trade dependence on India.

A number of policy measures were undertaken to promote exports to third countries. Jute, a major export item to India, was diverted to third countries for the first time in the early 1960s with the introduction of an exporter's entitlement scheme. In 1977, a dual exchange rate policy was implemented and a scheme of cash grants of 10 per cent of the border price of export items was introduced in 1983. At the same time, a nine-point programme was devised to promote exports, and a Council under the chairmanship of the Prime Minister was formed to develop exportable commodities and to promote exports. A number of provisions were made under this programme to facilitate and promote exports to overseas countries: industrial ventures were allowed to keep up to 15 per cent of their export earnings for the import of raw materials, auxiliary raw materials and capital goods; a customs tariff of just 1 per cent was levied, for recording purposes, on overseas exports; customs and sales-tax duty draw-backs on raw materials used for overseas export were granted, even for industries specified as not being entitled to such concessions. Pre-export credit for collection, processing and export of commodities on the basis of the importer's letter of credit or other collateral was also arranged for. A mandatory investment of 10 per cent of the total investment of Nepal Industrial Development Corporation in export-oriented industries and the establishment of separate banking units for exports in major exporting regions of the country were the major features of the programme. In fiscal year 1985/86, the Nepalese currency was devalued by 14.7 per cent under the structural adjustment programme of IMF. A provision whereby all commodities produced or manufactured in Nepal, except for prohibited or banned items, could be exported without licensing was introduced in the next year. An import licence auction system for commodities under different classification was also introduced to facilitate import of essential items.

Trade agreements

At the same time, a number of agreements on trade and related matters were signed after the 1960s. They include trade and payments and transit agreements and protocol with Bangladesh in 1976, a trade and payments agreement of 1981 with China, and trade agreements with Egypt in 1975, the Republic of Korea in 1971, the Democratic People's Republic of Korea in 1970, Pakistan in 1982 and Sri Lanka in 1979. All these agreements have been based on the MFN principle. A major feature of the latter part of the 1980s was the non-renewal of the trade and transit agreements of 1978 with India, which caused major hardships to the people and adversely affected almost all sectors of the economy.

Change in direction of trade

The cumulative effect of all these policy measures has been to divert trade away from India to a large extent. Implementation of the first three periodic plans, however, had virtually had no effect in changing the direction of trade. For example, trade with India accounted for almost the entire trade of Nepal in 1956/57 (i.e. the first year of the first plan); it was still around 70 per cent in 1969/70 (i.e. the last year of the third plan) as regards exports and over 90 per cent for imports (see table 2). Changes thereafter, however, have been relatively rapid. By 1989/90, or the end of the seventh plan, the export scenario vis-à-vis India was completely reversed, with India accounting for only 12 per cent of Nepal's total exports, though still some 16 per cent of imports.

Composition of exports

Nepal's exports to both India and the rest of the world still consist of agricultural and other primary products and simple manufactures, such as garments and woollen carpets. Its imports consist primarily of maize, mustard and linseed, herbs, ghee, dried ginger, pulses, live animals, flour, ginger, oilcake, catechu, rice bran oil, salseed oil, raw jute, jute goods, hession, sacking and twine. In the case of exports to the rest of the world, the major items are raw jute, jute goods, pulses, rice, linseed, oilcake, rice bran, turmeric, cardamon (large), dried ginger, medicinal herbs, catechu, bristle woollen goods, Nepalese paper and paper products, hides and skins, handicrafts, hand-knotted woollen carpets and readymade garments. Nepalese exports to selected countries in Asia consist of items such as pulses, tea, buffalo horns, medicinal herbs, linden nuts, kutch, medicines, incense sticks, hides and skins, crystle oil cake, crystle quarts, wooden and bamboo goods, Nepalese paper and paper products, woollen carpets, handicrafts, thanka, filigree, readymade garments, woollen goods, caps and hats, ballpoint pen, silver products and button and button materials.

A major and noteworthy feature has been the growing importance of hand-knotted woollen carpets and garments in Nepal's total export earnings from the rest of the world. Earnings from hand-knotted woollen carpets amounted to NRs 7.9 million in 1974/75, and by 1980/81 had reached NRs 45.8 million. By 1986/87, carpets were the major export, accounting for 38 per cent of total export earnings, with a value of NRs 627.5 million. By 1989/90 they had reached NRs 2,318.5 million (51 per cent of total export earnings).

Exports of readymade garments also grew spectacularly. From a value of NRs 1.3 million in 1974/75, they had reached NRs 13 million by 1980/81, and have increased rapidly since then. For example, in 1985/86 they amounted to NRs 807 million (46 per cent of total export earnings) and by 1989/90, NRs 1,399 million (or 31 per cent). In this last year, exports of readymade garments and hand-knotted woollen garments together accounted for 81 per cent of total export earnings.

Trade balance

The success in changing the direction of trade away from India has not, however, resulted in the desired positive gains to the economy. The balance of trade with India, which was in the red right from the 1950s on, has tended to take on frightening proportions in the 1980s (table 3). Trade deficits with the rest of the world (table 4) and with selected countries of Asia (table 6) have grown significantly during the review period. Except for the period of the third plan (1965-1970), when the deficit with India exhibited signs of being on a declining trend, other plan periods totally failed to check the rising deficits. In fact, the rise has been rather steep during all other plan periods. For example, the deficit with India increased by 129 per cent during the first plan, by 18.6 during the second plan, by about 329 per cent in the fourth and by about 380 per cent during the fifth plan period. It nearly doubled during the sixth plan period and it increased further, from NRs 2,730 million to NRs 4,072 million, during the seventh plan period. Except for a two-year period within the fourth plan (1971/72 - 1972/73), when, for some inexplicable reason, the balance was positive, the trade deficit with the rest of the world has also been steadily growing. From NRs 279 million in 1976/77, it rose to NRs 2,913 million in 1983/84 and fell only slightly the following year. By 1980/90 it had reached as much as TS9,097 million, with the result that the overall trade deficit (i.e. including trade with India) reached a staggering figure of NRs 1,317 million, equivalent to 14.5 per cent of GDP. Licensing and control mechanisms, including tariff and non-tariff barriers, failed to check a run-away growth of imports and the *ad hoc* and arbitrary measures to promote and diversify exports largely failed to benefit the economy.

III. PHILOSOPHY AND STRATEGIES OF THE EIGHTH PLAN

Nepal's eighth plan made a major and perhaps radical departure from the previous ones in its conceptual framework and development philosophy. Previous plans, from the first to the seventh, were all guided by the concept and each reiterated the cause of a mixed economy. Conventional wisdom and practice thus led the Government to assume not only the functions of controlling and directing the performance of all other sectors but also of acting as the supreme arbiter of the signals and directions of the market forces. The system of guidance and control spawned a large bureaucracy, generally effective in stifling the effort and initiatives of the private sector but in little else. Taking its cue from the changes in the international community, particularly the economic and political collapse of the countries in Eastern Europe, and from prevailing conditions in the country, where the gap between planned targets and actual performance had been widening with the implementation of each successive plan, the eighth plan called for a bold restructuring of the economy on the basis of market forces. To put into effect the philosophy of market-led development, it identified four basic strategies. The first has been to simplify, clarify and render transparent all administrative procedures to facilitate the fructification of the efforts and initiatives of the private sector. The second related to efforts designed to make the bureaucracy more efficient. The third and the fourth strategies related respectively to the process of greater liberalization, simplification and transparency of government policies and to their effective implementation. In conformity with these strategies, a number of reform measures were undertaken in the administrative set-up, and even state monopolies were forced to operate under conditions of competition from the private sector, while a number of public undertakings were divested to the private sector. Policy measures aiming to make the economy more liberal and competitive were put in place. From the point of view of creating more trade, a new trade policy, a new industrial policy and a new foreign investment and one-window policy were introduced and implemented. The main features of the new trade policy and the progress to date in its implementation are briefly reviewed in the ensuing paragraphs.

Main features of the new trade policy

The new trade policy (1992) aimed at a greater role for the private sector, liberalized and dynamic policies for export promotion, diversification of the commodity and geographical structure of trade, attracting FDI, gradual divesting of trade-related undertakings in the Government sector to the private sector, changing fiscal and monetary policies with a view to establishing full currency convertibility in respect of trade in goods and services, reforms in the taxation system to make trading activities more competitive, developing institutional arrangements and an information base, improving standards and institutionalizing a monitoring system and effective implementation of existing treaties and agreements or entering into new ones as deemed necessary. The focus on export promotion involved an export policy and strategies which included the following elements:

Policy

- Promoting competitiveness of Nepalese manufactures and products by expanding the production base of such commodities and improving their standards;

- Diversification of commodity and services to increase foreign exchange earnings;

- Quality improvements in the production of traditional and new exportable items, with emphasis on the export of processed and finished goods and identification of new markets;

- Developing new products for export;

- Developing the services sector;

- Promoting the export of hydro-electricity on a profitable basis;

- Increasing service-oriented activities and enhancing skills in such activities;

- Formulating necessary monetary, exchange and fiscal policies and changing the administrative procedures to make them more liberal, transparent and dynamic, with the overall objective of implementing specified tasks on a timely and transparent basis.

Strategies

- No export licence to be required, except for commodities banned or under quantitative restrictions; export licences to be issued with the participation of the private sector for commodities under quantitative restrictions; such restrictions to be gradually eliminated through adjustments in taxation;

- Infrastructure in respect of transit and transportation facilities to be improved;

- Developing container services and expanding bonded warehouse facilities;

- Duty drawback scheme to be implemented on an effective basis;

- No other taxation, except for a service charge on exportable commodities;

- Establishment of an export processing zone and no taxes to be charged on raw materials to industries established in the zone. Industries exporting more than 90 per cent of their products to be given the same facilities as those established in the export processing zone;

- No taxes to be levied on income from exports. Same treatment to be given to exports to India transacted through letter of credit or agreed banking document;

- Mobilizing Nepalese diplomatic missions to promote exports;
- No quantitative restrictions on exportable items taken away by tourists;
- Processes and procedures for exports to be simplified;
- A yearly directive plan and programme to be formulated; with the active participation of the private sector on the basis of the export situation and developments, to promote exports;
- A monitoring system to be institutionalized to avoid distortions;
- Training for research and development and for identification and development of exportable items to be institutionalized.

Progress in implementation

The Nepalese currency, which had been devalued by 20.9 per cent against the United States dollar in July 1991, was made partially convertible in March 1992, accompanied by further devaluation. In February 1993, full convertibility on current account was established, permitting all earnings from exports of goods or services to be exchanged at the rate prevailing in the open market.

The tariff structure has been rationalized to a great extent. The average tariff was high and there was a wide dispersion of rates, producing a substantial anti-export bias and distortions in industrial incentives. The number of duty-exempt items was increased from 174 in 1988/89 to 219 in 1991/92. Further changes in the tariff structure were introduced in the 1992/93 budget, bringing down the number of tariff rates from 12 to 8 and substantially reducing their level. Additional tariff rates levied on imports from third countries were reduced by more than 50 per cent (from 15, 30, 40 and 50 per cent to 5, 10, 15 and 20 per cent).

In February 1993, these rates were further reduced, to 3, 5, 8 and 12 per cent. Realizing that trade diversification was the backbone of liberalization, the 1993/94 budget further reduced the number of tariff rates to seven and completely abolished the additional duty. Import duty exemption of 20 per cent was given for imports from India, and for commodities with basic rates up to 60 per cent. The rebate on Indian imports of goods with 110 per cent basic rate was only 10 per cent. Similarly, exemptions of 10 per cent and 5 per cent were given to imports from China, member countries of the South Asian Association for Regional Cooperation (SAARC) and countries enjoying MFN treatment. An export service charge of 2 per cent was also levied.

With a view to easing the pressure on holdings of Indian currency, and facilitating imports at cheaper rates, an arrangement whereby industrial raw materials, machinery and other specified commodities can be imported from India and paid for in dollars has been institutionalized.

Income tax exemption is made on incomes derived from exports and the one-window system has been authorized to refund customs tariff, sales tax, and excise (and premium for goods imported under the import licence auction system) duties levied on goods imported for the manufacture of export commodities. At the same time, to facilitate the export of gold and silver ornaments, an arrangement has been made whereby the exporters can directly buy gold and silver from Nepal Rastra Bank at the international market price plus some service charge.

A one-window-system has been put into force to facilitate and attract the flow of FDI. The Government hosted a Foreign Investors Forum in November-December 1992. Nepal had already joined the Multilateral Investment Guarantee Agency (MIGA) of the World Bank group in October 1992. At the end of the Investors Forum, 113 memoranda of understandingwere signed with foreign investors for about $800 million of investment proposals for the coming years.

The Government abolished the export floor price system in April 1993. The import licence auction system for imports subject to quantitative restriction was also abolished in fiscal year 1993/94. At the same time, the Trade Promotion Centre has been streamlined and a Foreign Trade Policy Research Institute has been constituted. A Trade

Council to review matters related to trade, under the chairmanship of the Minister of Commerce, has also been institutionalized on an operational basis.

As noted above, India remains a major market for Nepal's exports as well as a major supplier of various goods and commodities, including industrial and capital goods. The economic relationship between the two countries has been governed by successive trade and transit treaties. After an *impasse* in the late 1980s, new treaties were signed on May 1991. On 16 February 1993, three exchanges of letters on (a) provisions relating to improvement and simplification of the regime for export of Nepalese manufactured items to India on a preferential basis; (b) movement of Nepalese private commercial vehicles between the Nepalese border and Calcutta/Haldia; and (c) easier Nepal-to-Nepal movement of Nepalese vehicles and goods through India. Under the first exchange of letters, the pro forma clearance system for the preferential export of Nepalese manufactured items to India has been abolished, in favour of the internationally accepted practice of issuing certificates of origin. Likewise, the provision to include labour added in Nepal in calculating the component percentage of Nepalese manufactured items eligible for preferential entry into the Indian market, and the agreement to lower the total percentage composition of Nepalese and/or Indian materials, including labour added in Nepal, to 50 per cent for preferential access to the Indian market, are expected to enhance and broaden the scope of Nepalese exports;

Within the framework of SAARC, a South Asian Preferential Trading Arrangement (SAPTA) is to be established by 1997. SAPTA is designed to promote intra-regional economic cooperation and development through increased regional trade, which at present constitutes a negligible share in the total volume of the South Asian trade. Nepal is the first country, to date, to ratify the agreement establishing SAPTA. SAPTA proposes to clearly recognize the special needs of contracting LDCs and to take concrete preferential measures in their favour. SAARC countries accounted for 24.6 per cent of Nepal's total exports, and for 36.2 per cent of total imports, in 1989. With the establishment of SAPTA, Nepal's share in regional trade is likely to go up.

Presently, items of archaeological and religious importance, wild animals or articles promoting their extinction, narcotics, precious metals and jewels, explosives and related accessories, industrial raw materials and some timber products are prohibited from export and a few agricultural products are under quantitative restrictions. But a process of gradual liberalization of these items has also been initiated by the Ministry of Commerce.

IV. CONCLUSIONS AND RECOMMENDATIONS

New policy initiatives and their implementation by the Government have gone a long way in liberalizing trade in general and exports in particular. The increase in exports, however, has failed to mitigate the adverse and alarming trade deficits either with India or with the rest of the world. Moreover, with new issues associated with environment and labour being raised by the industrially advanced countries, Nepal's excessive dependence on two commodities for export to those countries has tended to make it highly vulnerable. The signing of the letter of exchange with India in 1993 has facilitated an enlarged group of commodities to be exported there. Total exports to India reached NRs 2,106 million during the first 10 months of the current fiscal year, but imports rose to NRs 14,260.3 million, exceeding the level of NRs 12,874 in the whole of fiscal year 1992/93. The trade deficit increased to NRs 12,154 million in the period under review, from the annual figure of NRs 11,191 million for 1992/93. Likewise, exports to the rest of the world during the first 10 months of this fiscal year were NRs 13,970 million compared to the annual figure of NRs 15,820 million for 1992/93. The total trade deficit with the rest of the world during the first 10 months of this fiscal year had already reached NRs 12,154 million, well above the annual figure of NRs 9,948 million in 1992/93.

Against the background of a list of traditional exports by Nepal shrinking day-by-day, and of a volume of imports, both to meet the daily necessities and to provide goods and services for developmental purpose, that is increasing at a steep rate, the question of economic survival of the country takes on critical proportions. While foreign aid, transfers and remittances and earnings from tourism have helped to mitigate some of the adverse characteristics of the balance of payments situation, transfer and remittances and earnings from tourism are likely to decline in the foreseeable future. At the same time, with new countries and newer needs competing for a shrinking volume of official development assistance, the traditional flow of foreign aid on soft terms or in grants to Nepal is also becoming increasingly questionable. All these considerations leave Nepal with no other recourse than to increase its export base and export earnings for the survival of the country. The following may be worth considering as recommendations to move in this direction:

- Nepalese exports have traditionally been directed towards industrially advanced countries. In 1989, the share of exports to such countries was 68.9 per cent. Carpets are almost exclusively destined for Germany and garments for the United States and these two items already accounted for 82 per cent of total earnings from exports to the rest of the world in 1989/90. Stringent rules and regulations being likely to be imposed in these areas, it is doubtful whether Nepal can maintain the same level of export linkages to the industrially advanced countries. In the present global scenario, East and South-East Asia represent the brightest spot on the international landscape, with repeated success over many years in raising output, productivity, exports and employment. Nepal should specifically and actively explore the possibilities of greater economic interactions, especially through trade and investment linkages, with this region;

- The process of liberalization has been pursued in Nepal over the past few years, but liberalization is a concept of relative usefulness, given the socio-economic specifics of a country. A small dose of liberalization in a big market may have a different impact than even a big dose in a small one. A new trade policy, industrial policy on foreign investment and a one-window policy have been in operation for the past couple of years. Some positive effects can be discerned even at this time. But the point is whether these positive effects in themselves are enough to transform the nature and structure of the economy in the desired direction and what is the likely time-span for such transformation at the present rate. Policy measures have to be finely and constantly attuned to existing realities and desired goals. Some of these policies have also left negative effects in the wake of their implementation. At the same time, other aspects of these policy measures have been left either totally unimplemented or ineffectively implemented. The constant and fine-tuning mechanisms are either largely absent or the Nepalese characteristic of avoiding problems and their resolution is again going to raise the spectre of weak implementation which has constantly dogged the country in respect of policy measures and plan objectives.

Table 1: The development of trade between Nepal and India in the late 19th century

(Millions of rupees)

	Eastern and central sectors		
	1880-1881	1890-1891	1899-1900
Exports	10.3	12.4	16.9
Imports	5.6	6.9	11.5
	Western and far-western sectors		
	1880-1881	1890-1891	1900-1901
Exports	5.7	5.9	8.1
Imports	3.2	3.4	4.3

Source: Mahesh Chandra Regmi, *An Economic History of Nepal 1846-1901* (Veranasi: Nath Publishing House, 1988).

Table 2: Trade with India and the rest of the world

(Percentage of total exports or imports)

Fiscal year	Exports to:		Imports from:	
	India	Rest of world	India	Rest of world
1956/57	97.9	2.1	97.6	2.4
1957/58	96.2	3.8	94.9	5.1
1958/59	99.0	1.0	97.7	2.3
1959/60	99.7	0.3	93.9	6.1
1960/6	99.8	0.2	94.2	5.8
1961/62	99.5	0.5	98.9	1.1
1962/63	99.4	0.6	99.2	0.8
1963/64	97.9	2.1	98.5	1.5
1964/65	96.3	3.7	98.5	1.5
1965/66	91.3	8.7	97.6	2.4
1966/67	85.2	14.8	96.6	3.4
1967/68	76.7	23.3	92.3	7.7
1968/69	44.3	25.7	93.2	6.8
1969/70	69.6	30.4	91.5	8.5
1970/71	77.4	22.6	88.2	11.8
1971/72	64.2	35.8	91.0	9.0
1972/73	78.6	21.4	88.6	11.4
1973/74	74.9	25.1	84.0	16.0
1974/75	83.9	16.1	81.3	18.7
1975/76	75.4	24.6	61.9	38.1
1976/77	66.9	33.1	66.9	33.1
1977/78	47.6	52.4	62.1	37.9
1978/79	50.1	49.4	54.8	45.2
1979/80	45.3	54.7	51.3	48.7
1980/81	61.7	38.3	49.2	50.8
1981/82	66.7	33.3	46.3	53.7
1982/83	74.5	25.5	39.6	60.4
1983/84	68.0	32.0	47.0	53.0
1984/85	58.0	42.0	50.0	50.0
1985/86	40.0	60.0	43.0	57.0
1986/87	44.0	56.0	39.0	61.0
1987/88	38.0	62.0	33.1	66.9
1988/89	25.0	75.0	26.0	74.0
1989/90	12.0	88.0	26.0	74.0
1990/91	21.0	79.0	32.0	68.0
1991/92	11.0	89.0	35.2	64.0
1992/93	9.6	90.4	33.3	66.7
1993/94[a]	12.7	87.2	34.7	65.2

Source: S.F. Poudyal, *Foreign Trade, Aid and Development in Nepal* (New Delhi: Commonwealth Publishers, 1988); Federation of Nepalese Chambers of Commerce & Industry, *Nepal and the World. A Statistical Profile*, Kathmandu, 1994; and Ministry of Finance, *Economic Survey, 1993/94*.

[a] First nine months only.

Table 3: Balance of trade with India

(Millions of rupees)

Fiscal year	Imports	Exports	Trade balance
1956/57	165.8	93.5	-72.3
1957/58	150.4	70.5	-79.9
1958/59	218.2	116.7	-101.5
1959/60	269.9	131.3	-138.6
1960/6	375.1	209.2	-165.9
1961/62	439.7	163.9	-175.8
1962/63	598.9	286.0	-312.9
1963/64	595.6	285.0	-310.6
1964/65	806.4	435.2	-371.2
1965/66	763.5	370.5	-393.0
1966/67	465.1	420.7	-44.4
1967/68	441.1	390.3	-50.8
1968/69	697.3	569.9	-127.4
1969/70	791.3	485.4	-305.9
1970/71	616.8	395.2	-221.6
1971/72	808.7	338.8	-469.9
1972/73	872.0	496.4	-375.6
1973/74	976.8	513.3	-463.5
1974/75	1 475.7	746.7	-729.0
1975/76	1 227.1	893.7	-333.4
1976/77	1 343.5	779.6	-563.9
1977/78	1 534.1	498.1	-1 036.0
1978/79	1 581.7	650.1	-931.6
1979/80	1 786.4	520.9	1 265.5
1980/81	2 179.2	992.4	-1 186.8
1981/82	2 280.9	994.4	-1 286.5
1982/83	2 499.6	843.3	1 656.3
1983/84	3 058.0	1 160.7	-1 897.3
1984/85	3 895.8	1 601.7	-2 294.1
1985/86	3 970.9	1 241.1	-2 729.8
1986/87	4 262.0	1 302.6	-2 959.4
1987/88	4 559.8	1 567.8	-3 028.0
1988/89	4 238.7	1 034.9	-3 203.8
1989/90	4 674.5	602.5	-4 072.0
1990/91	7 323.1	1 552.2	-5 770.9
1991/92	11 815.9	1 568.9	-10 247.0
1992/93	9 127.2	1 245.5	-7 881.7

Source: See table 4.

Table 4: Nepal's trade balance with the rest of the world

(Millions of rupees)

Fiscal year	Imports	Exports	Trade balance
1956/57	4.1	2.0	-2.1
1957/58	8.0	2.8	-5.2
1958/59	5.2	1.2	-4.0
1959/60	17.6	0.4	-17.2
1960/6	22.9	0.5	-22.4
1961/62	4.7	1.3	-3.4
1962/63	5.1	1.7	-3.4
1963/64	9.0	6.2	-2.8
1964/65	12.5	5.4	-7.1
1965/66	18.5	4.6	-13.9
1966/67	16.2	5.6	-10.6
1967/68	36.7	2.7	-34.0
1968/69	50.6	2.3	-48.3
1969/70	73.3	4.1	-69.2
1970/71	82.2	5.4	-76.9
1971/72	79.6	186.0	106.4
1972/73	111.8	135.1	23.3
1973/74	186.4	172.3	-14.1
1974/75	338.9	142.9	-196.0
1975/76	754.6	292.1	-462.5
1976/77	664.5	385.1	-279.4
1977/78	935.5	548.1	-387.4
1978/79	1 303.0	646.7	-656.3
1979/80	1 693.7	629.6	-1 064.1
1980/81	2 249.0	616.3	-1 632.7
1981/82	2 649.4	497.1	-2 152.3
1982/83	3 184.4	288.7	-3 525.7
1983/84	3 456.3	543.2	-2 913.1
1984/85	3 846.3	1 138.9	-2 707.4
1985/86	5 370.3	1 836.9	-3 533.4
1986/87	6 643.2	1 688.8	-4 954.4
1987/88	9 273.8	2 546.8	-6 727.0
1988/89	12 025.0	3 160.4	-8 864.6
1989/90	13 650.4	4 553.7	-9 096.7
1990/91	15 903.4	5 835.3	- 10 068.1
1991/92	21 135.4	12 370.5	-8 764.9
1992/93	17 139.8	11 852.3	-5 287.5

Source: **Federation of Nepalese Chambers of Commerce and Industry**, *Nepal and the World. A Statistical Profile*, **Katmandu, 1994.**

Table 5: Exports to selected Asian countries

(Thousands of rupees)

Fiscal year	Japan	China	Singapore	Hong Kong	Republic of Korea	Taiwan Province of China	Malaysia	Thailand	Indonesia	Total
1979/80	57 803	25 560	29 185	13 586	141	-	1 079	2 899	-	130 253
1980/81	31 527	16 447	65 580	93 884	-	-	3 532	3 452	-	214 422
1981/82	15 626	20 871	33 878	4 061	2	-	274	90	-	74 802
1982/83	11 370	699	7 645	4 987	-	-	74	6	23	24 804
1983/84	8 359	-	15 525	4 309	390	-	94	-	22	28 699
1984/85	13 542	-	68 868	16 099	73	-	198	2	-	98 782
1985/86	10 285	-	216 302	49 586	-	-	210	107	2	276 492
1986/87	26 957	17	105 631	11 459	3 456	-	39	1 445	3	149 007
1987/88	19 456	16	28 848	7 334	8 523	-	363	319	8	64 867
1988/89	25 767	1 876	17 642	6 894	18 577	2 374	6	552	56	73 744
1989/90	24 072	13 346	30 229	7 500	27 864	6 042	10	2 051	27	111 141
1990/91	29 063	-	31 802	8 250	57 773	3 644	121	1 716	1 119	133 488
1991/92	51 454	-	151 825	45 836	6 379	11 605	140	257	-	267 496
TOTAL	325 281	78 832	802 960	273 785	123 178	23 665	6 140	12 896	1 260	1 647 997

Source: Trade Promotion Centre, Katmandu, *Nepal's Overseas Trade Statistics* (1979/80 to 1991/92).

Table 6: Balance of trade with selected Asian countries

Country	1990/91			1991/92		
	Exports	Imports	Balance	Exports	Imports	Balance
Japan	29 063	3 128 465	-3 099 402	51 454	2 872 806	-2 821 352
China	-	1 102 390	-1 102 390	-	692 759	-692 759
Singapore	31 802	3 377 057	-3 345 255	151 825	5 864 707	-5 712 882
Hong Kong	8 250	337 706	-329 456	45 836	412 138	-366 302
Republic of Korea	57 773	518 115	-460 342	6 379	684 372	-677 993
Taiwan Province of China	3 644	389 300	-385 656	11 605	413 649	-402 044
Malaysia	121	228 436	-228 315	140	210 508	-210 368
Thailand	1 716	206 920	-205 204	257	303 330	-303 073
Indonesia	1 119	91 297	90 178	-	135 007	-135 007
Total above	133 488	9 379 686	-9 246 198	267 496	11 589 276	-11 189 559

Source: Trade Promotion Centre, Katmandu, *Nepal's Overseas Trade Statistics (1990/91 - 1991/92)*.

EXPORT SECTOR DEVELOPMENT IN PAKISTAN: PAST EXPERIENCE AND CURRENT PROSPECTS

Ashfaque H. Khan[*]

I. INTRODUCTION

The economic development of Pakistan ever since its independence in 1947, has been somewhat uneven. The economy has been hit by a large number of shocks in a short span of time, compared with most other countries. During its brief history the country has witnessed three wars with India (in 1948, 1965 and 1971); a number of bad harvests; the secession in 1971 of the eastern part of the country (now Bangladesh); a prolonged recession that engulfed the main commodity-producingsectors (agriculture and manufacturing) from 1970 to 1977; the large-scale nationalizationof industries in 1972 which shattered investors' confidence; a massive devaluation (56.7 per cent) of the currency (in 1972); a five-fold increase in oil prices in 1973 and manifold increases in 1979; a rapidly accelerating inflow of workers' remittances, starting from the mid-1970s, but falling equally rapidly thereafter; and, last but not least, worsening macroeconomic balances, particularly the rising budget deficit on current account in the late 1980s.

In spite of all these apparent disadvantages, Pakistan's economy has grown more rapidly than the economies of its South Asian neighbours. Economic policy has been concerned primarily with accelerating the rate of growth of GNP. It was, therefore, not surprising that Pakistan has been acclaimed a model economy for developing countries, as far as its growth performance was concerned.

Conditions in the foreign trade sector have fluctuated widely during the last four decades as a result of the combination of various economic and non-economicfactors. Among the economic factors a prominent role was played by the specific trade policies pursued. In the 1950s and 1960s, an import substitution policy was vigorously pursued under the influence

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of 'trade pessimism'. However, some attempts were made in the 1960s to promote the growth of exports by reducing the anti-export bias resulting from the import regimes.[1] The pendulum swung to the other extreme during the 1970s, when various export incentives schemes were adopted, coupled with a liberal import policy for raw materials. Other economic factors that led to fluctuations in export growth were the stagnation in industrialized countries and high international interest rates affecting demand conditions in western countries during the 1980s. Among the non-economic factors, prominent were the adverse weather conditions, disturbed law and order situation and political uncertainly in the country that severely affected the growth of exports.

Against this background, the present paper reviews briefly the economic and trade performance of Pakistan. In particular, it seeks to highlight the various policy measures taken during the last four decades to increase production for export and promote export expansion. It accordingly also documents various measures and incentives to strengthen export marketing and distribution. The role, function and structure of the public and private sectors in promoting exports are also discussed. Finally, the outlook for export expansion up to the year 2000 is considered.

The plan of the paper is as follows. Section II contains a brief review of economic and trade performance in the the last four decades and of the Government's development objectives and overall strategy. In section III, the various export policies, measures, and incentives to encourage production for export, enhance export capabilities and strengthen export marketing and distribution are discussed. The role of the public and private sectors in providing support to exporters is also considered. The outlook for Pakistani exports up to the year 2000 is presented in the final section.

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[1] Incentives were provided to exporters of manufactured goods through a system of multiple exchange rates embodied in the export bonus scheme. The multiple exchange rate system was a means of compensating exporters of manufactured goods for the overvaluation of the rupee. See Shah *et al.* (1990) for a detailed discussion.

II. REVIEW OF ECONOMIC AND TRADE PERFORMANCE

Pakistan's economic performance during the last three decades has been lopsided, evoking considerable approbation, on the one hand, and controversy on the other. Its growth performance during the 1960s was eulogized rather uncritically and acclaimed as a paradigm of success in developing countries. The 1970s witnessed a marked slowdown in economic activity, partly as a result of specific economic policies pursued domestically and partly as a result of an inhospitable international economic environment. The growth momentum which was lost in the 1970s bounced back in the 1980s. The policy of gradual decontrol, deregulation and denationalization paid rich dividends as growth performance in the 1980s matched that of the 1960s. The generally satisfactory performance during the 1980s in terms of growth, however, coincided with worsening macroeconomic balances.

During the 1960s, real GDP grew at an average annual rate of 6.8 per cent, with major advances taking place in the industrial and agricultural sectors. Industrial output increased at an annual average rate of 13.4 per cent thereby raising the contribution of manufacturing to GDP from 12.9 per cent in the early 1950s to 16.0 per cent during the 1960s. Many factors contributed to the remarkably high growth rate of industrial output. Firstly, high growth in this sector has to be viewed in the context of the low industrial base at the time of independence. Secondly, it was made possible by deliberately pursuing a set of policy measures which encouraged private industrial investment and through a massive inflow of foreign aid. The momentum of industrialization was secured through import substitution and excessive protectionism.

The performance of agriculture during the 1960s was remarkable, as ouput rose at at an average rate of 6.1 per cent per annum -- twice the rate of population growth. This performance was partly a reflection of the virtual stagnation of agriculture in the preceeding decade (when the rise in output averaged 1.6 per cent) - i.e. ouput grew from a low base. Furthermore, the 1960s also witnessed the introduction of the green revolution technology. Much of the high growth was recorded during the last three years of the decade (8.5 per cent per annum) as the effects of the green revolution became more widespread.

The 1970s witnessed a marked slowdown in economic activity owing to the combined effects of domestic economic policies and the external economic environment. The hopes raised by the impressive performance of the 1960s were frustrated by the experience of the early 1970s. The disturbed political situation, leading to the separation of the eastern part of the country (now Bangladesh) in 1971, caused a major setback to the economy. The reforms introduced by the Government in 1972-1977 added a major element of uncertainty in economic relations which could not be removed by subsequent assurances. Nationalization of a significant segment of the industry and of the entire financial system, including banking and life insurance, shattered investor confidence. Furthermore, adverse weather conditions severely affected agricultural output in the mid-1970s.

The external sector also played a major role in slowing down economic activity in the first half of the 1970s. The five-fold rise in oil prices, world inflation due to the rise in energy prices and subsequent emergence of recession, affecting the demand for and prices of exports from developing countries, brought about major changes in the industrial and export sectors.

The combined effects of both the domestic and external factors have been far-reaching. The growth of agriculture and industry slowed steeply, falling to an annual average of 2.1 per cent and 2.5 per cent, respectively, in 1972-1977 (see table 1). Real GDP grew at an average rate of 4.8 per cent during this period. Most of the growth in GDP came from the services sector, which grew by 7.9 per cent. During that period, the shares of agriculture and industry in GDP declined from 39.0 per cent to 34.1 per cent and from 10.9 per cent to 9.7 per cent, respectively. In July 1977, the military Government undertook a gradual process of decontrol, deregulation, and denationalization. It embarked upon a policy of adjustment to stabilize the economy. Notwithstanding the various fiscal and monetary measures, the 1970s witnessed an average rate of real GDP growth of 4.8 per cent, agriculture growing by 2.3 per cent and industry by 4.7 per cent.

The performance of the economy in the 1980s was impressive and broad-based, even in the face of a number of adverse internal factors. Real GDP grew at an average rate of 6.1 per cent per annum, compared with 6.8 per cent in the 1960s. Manufacuring grew by 8.1 per cent, but less than in the 1960s. The second half of the 1980s witnessed a worsening law and order situation, political uncertainly, the emergence of infrastructural bottlenecks in power, transport and other sectors, and insufficient industrial investment. These factors were responsible for the relatively slower growth of industry.

Table 1: Growth performance during the last three decades

(Percentage)

Period	Annual growth of:			Share in GDP		
	GDP	Agriculture	Manufacturing	Agriculture	Manufacturing	Services
1960s	6.8	6.1	1.4	..	..	..
1970s	4.8	2.3	4.7	39.0[a]	10.9[a]	50.1[a]
1980s	6.1	4.0	8.1	34.1[b]	9.7[b]	56.2[b]
1990-93	5.0	3.0	6.3	29.3[c]	11.9[c]	58.8[c]
1972-77	4.8	2.1	2.5	26.2[d]	12.7[d]	61.1[d]
1978-83	6.7	4.5	10.5	24.7[e]	12.9[e]	62.4[e]
1984-89	6.4	5.9	7.1			

Source: *Pakistan Economic Survey*, various issues.

[a] 1972. [b] 1977. [c] 1983. [d] 1989. [e] 1993.

The performance of agriculture has been erratic: there was a 4.8 per cent decline of output in 1983/84 but a rise of 10.9 per cent in 1984/85. On average, output grew by 4.0 per cent in the 1980s as a whole. Consequently, its share in GDP declined from 29.3 per cent in 1982-1983 to 26.2 per cent in 1989-1990.

The early 1990s (1990-1993) witnessed a slowdown in economic activity. Real GDP grew by an average of 5.0 per cent per annum, but agriculture by only 3.0 per cent. Industrial production also experienced a relatively sluggish growth - 6.3 per cent per annum, against 8.1 per cent in the 1980s. Several factors contributed to this lacklustre growth performance. Firstly, the disturbed law and order situation, in Sindh province in particular and in the country in general, affected investor confidence and hence slowed down industrial activity. Secondly, adverse weather conditions in 1992/93 severely damaged agricultural output (which fell by 5.4 per cent). Thirdly, political uncertainty (seven governments in three years) also affected industrial production.

Trade performance

Since the early 1950s, both the exchange rate and commercial policies in Pakistan have favoured import substitution, thereby creating a highly protective environment for industrialization. Exports received limited attention, while imports were severely restricted during most of the 1950s. Consequently, imports grew by 1 per cent per annum, and exports fell by 9.8 per cent, during that decade. With the change of government in 1958, a new set of economic and commercial policies was instituted. The export bonus scheme, a variation of the multiple exchange rate system, was the key element of the new commercial policy. From 1959-1960 to 1967-1968, exports increased consistently, but growth tapered off by the end of the decade. Imports also registered a modest growth. Hence, during the 1960s as a whole exports registered an impressive growth of 12.8 per cent per annum, while imports grew by an average rate of 4.7 per cent.

Pakistan's foreign trade sector had to undergo a major structural change as a result of the secession of the eastern part of the country in 1971. Finding alternative markets for exports and alternative sources of imports became one of the major challenges for the Government. In May 1972, the Government abolished the export bonus scheme and devalued the rupee by 56.7 per cent. Initially, both these measures had a favourable impact on exports. However, the period following the devaluation also coincided with one of rising oil prices and worldwide inflationary pressures, which adversely affected the terms of trade. Consequently, in the 1970s exports grew at an annual rate of 21.5 per cent and imports by one of 21.2 per cent (see table 2).

In January 1982, a system of managed floating exchange rate replaced the fixed exchange rate system. The new exchange rate policy was motivated by the desire to maintain the international competitiveness of exports. Despite this flexible exchange rate policy, exports fluctuated widely during the 1980s. During the first half of the 1980s they hardly registered any improvement, creeping up at a mere 1.9 per cent per annum. This unsatisfactory performance is attributable to world recession and to shortfalls in the output of major export items. Exports recovered their momentum in the years 1985-1988, increasing at an average rate of

Table 2: Trade performance during the last four decades

(Percentage)

Period	Annual growth of	
	Exports	Imports
1950s	-9.8	0.8
1960s	12.8	4.7
1970s	21.5	21.2
1980s	7.7	.9
1st half of 1980s	1.9	5.5
2nd half of 1980s	15.2	4.5
1972-77	14.1	29.5
1978-83	15.5	13.8
1984-89	11.0	4.3
1990-93	10.3	10.4

Source: *Pakistan Economic Survey*, various issues.

21.0 per cent per annum. But, once again, the performance in 1988/90 was relatively poor: exports registered a growth of only 6.3 per cent as a result of an adverse movement in international prices, political uncertainty and a disturbed law and order situation in Sindh province. Thus, for the 1980s as a whole the annual average increase in export earnings was 7.7 per cent.

Imports, on the other hand, grew annually by 5.5 per cent during the first half of the 1980s, but declined in value in 1985/86 and 1986/87 due to a fall in world prices of Pakistan's major import items. During the year 1987/88 imports increased sharply by 19.4 per cent, the main reason being the steep rise of 24.3 per cent in unit prices. The rise slowed down to 4.2 per cent in 1988/89 and 2.8 per cent in 1989/90, mainly because of lower world prices of Pakistan's major imports, particularly edible oil (-8.0 per cent) and petroleum products (-9.0 per cent). For the 1980s as a whole export earnings rose by an annual 7.7 per cent and the import bill by 3.9 per cent.

Exports have been highly concentrated on a few items, which has led to severe instability in export earnings. Table 3 indicates that some 7 per cent of export earnings are derived from three products, namely ric cotton and leather, of which cotton alone accounts for roughly 60 pe cent. Prospects for both rice and cotton depend crucially on weathe conditions. A poor cotton crop seriously affects total earnings, as it di in 1992/93 and 1993/94, when they actually declined.

Table 3: Share of major export items in total export earnings

(Percentage)

	Rice	Cotton	Leather	Others
1971/72	8.4	63.5	7.6	20.5
1972/73	18.5	64.0	6.4	11.1
1973/74	28.5	48.8	.4	19.3
1974/75	27.6	51.2	7.0	14.2
1975/76	22.7	49.3	5.0	23.0
1976/77	19.6	59.3	7.5	13.6
1977/78	18.6	38.7	5.9	36.8
1978/79	20.0	36.3	8.4	35.3
1979/80	17.9	41.0	6.7	34.4
1980/81	19.1	42.9	4.0	34.0
1981/82	15.7	42.2	5.5	36.6
1982/83	10.7	45.2	4.8	39.3
1983/84	15.3	41.7	6.9	36.1
1984/85	8.9	49.	8.6	33.2
1985/86	11.2	53.0	8.8	27.0
1986/87	8.1	55.6	9.4	26.9
1987/88	8.2	56.0	9.7	26.1
1988/89	6.5	62.6	8.6	22.3
1989/90	4.8	60.1	9.8	25.3
1990/91	5.6	60.0	9.1	24.3
1991/92	6.0	61.3	8.6	24.1
1992/93	4.7	59.8	9.3	26.2

Source: *Pakistan Economic Survey*, various issues.

III. STRATEGIES FOR EXPORT EXPANSION: AN EVALUATION

Exchange rate policy

Pakistan pursued a policy of fixed exchange rates until January 1982 when, it shifted to a managed floating rate. As a result of the fixed exchange rate policy, the currency was overvalued during the 1950s and the 1960s, which encouraged the choice of capital-intensive techniques of production in a labour surplus economy and also encouraged import substitution.

Adoption of a managed floating exchange rate system in January 1982 was by far the most important measure undertaken to remove these anomalies. Important considerations behind this change of policy were maintaining the competitiveness of non-traditional exports, improving the current account balance and raising foreign exchange reserves to the equivalent of at least seven weeks of imports. By 1992/93, there had been 37 adjustments to the exchange rate for the dollar, in order to maintain export competitiveness. The cumulative depreciation of the Pakistan rupee, since the introduction of the managed floating exchange rate system, has been of the order of 63.5 per cent.

Exchange rate policy, in particular, nominal devaluation to improve external competitiveness has now become the centre-piece of any adjustment effort. It is expected that a nominal devaluation will result in a switch of expenditure, increased production of tradeables, higher exports, lower imports, and in an improvement of the balance of payments. Recently, the traditional stabilization packages, and especially their devaluation component, have come under attack by a number of authors.[2] It has been argued[3] that devaluation can be counterproductive because exports and imports are relatively insensitive to price and exchange rate changes, especially in developing and semi-industrialized countries. If valid, these arguments have important policy implications. If exchange rate changes (devaluation) do not improve the trade balance then the various IMF stabilization packages that include some exchange rate realignment cannot be justified.

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[2] It is not possible to mention all the authors. However, a good reference to this debate is provided in Edwards (1986) and Nunnenkamp and Schweickert (1990).

[3] For example, by Gylfason and Risager (1984).

What is the evidence for Pakistan? In a recent paper, Hasan and Khan (1994) examined this issue by specifying exports, imports, and general price level equations. By resolving these equations simultaneously they arrived at the conclusion that devaluation may improve the trade balance in Pakistan. The Marshall-Learner conditions were tested and found to satisfy the conditions for devaluation to be successful in improving the trade balance.[4]

Infrastructure for exports

Infrastructure plays a key role in economic growth and also provides a basis for export promotion. It includes a system of communications and services, apart from public institutions, which provides support for the manufacture, transport and marketing of exportable commodities.

Communications

Pakistan Railways

Pakistan Railways forms the life-line of transportation in the country and has the greatest potential for large-scale movement of freight as well as passenger traffic. However, owing to inadequate funding, its operating efficiency has declined over the years. Consequently, the transportation of export commodities (manufactures and semi-manufactures) by rail has also declined. The introduction of a full-fledged, modern and mechanized CFS (Land Container Freight Station) at Lahore Dry Port has led to a considerable increase in the movement of containers carrying imports and exports during the last seven years. An expansion project for the port, amounting to PRs 149 million and sanctioned by the National Economic Council, has been completed. The facilities made available under this project have helped to increase and popularize the containerized traffic. Under this project, not only has a modern container yard been provided, but also the port's container-handling equipment has been installed.

Dry ports at Multan, Peshawar, Sialkot, Quetta and

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[4] The results of this exercise are reproduced in annex I.

Rawalpindi/Chaklala have also been opened to handle cargo with effect from April 1986, July 1986, November 1986, May 1987 and April 1990, respectively, to provide similar dry port facilities to the business community of these cities. During the year 1991/92, cargoes handled at these dry ports involved the following tonnages: Sialkot: 9,858; Peshawar: 42,977; Multan: 1,149; Quetta: 32,490; and Rawalpindi: 8,357.

Pakistan International Airlines (PIA)

With 43 aircraft (including only two Boeing 707 freighters) the capacity of PIA as a freight carrier is limited, which is a serious handicap to increasing exports of fresh fruits, flowers, vegetables and other perishable merchandise. Because of its limited operations, the share of PIA in the country's total freight traffic is negligible. The carrier urgently needs to expand its freight facilities so as to cater to ever-increasing demand by exporters of non-traditional, especially perishable, items such as fruits, vegetables and flowers.

National Logistic Cell (NLC)

The National Logistic Cell was set up in 1978 to handle large-scale transportation of wheat and fertilizers to up-country. It has developed into the biggest public sector road transportation agency in Asia. It transports rice and cotton to Karachi port from up-country.

Thanks to more effective supervision and coordination, NLC has achieved encouraging results. For example, the rate of loading of rice, which previously was 500-800 tons per day per ship, has increased four-fold. Similar results have been achieved in the loading of cotton and unloading and despatch of wheat, fertilizers and cement.

With NLC organizing the handling of goods at Karachi port, there is no longer a waiting time of 40 days for berthing ships; two berths are now always available for immediate berthing and unloading, and this facility has induced a large number of ships to call at Karachi port. The port productivity, which was 1 ton per hook per hour in 1978, has reached 19.5 tons.

NLC's fleet, which consisted of 896 vehicles in 1978, had grown to

1,657 vehicles by 1988 (1,337 trucks and 320 bowzers). The capacity of trucks ranges from 16 to 40 tons, while bowzers have a capacity of 27,000-28,000 litres. The total one-time lift capacity of NLC is 31,094 tons of dry cargo, and 8,677 kilolitres of liquid cargo.

Ports and shipping

The Ports and Shipping Wing of the Ministry of Communication is concerned with the development of ports and of the shipping industry. Handling virtually all of the country's imports and exports, it has the following main autonomous organizations: Karachi Port Trust (KPT); Port Qasim Authority; Pakistan National Shipping Corporation (PNSC). It also operates the Dry Ports.

Karachi Port Trust

KPT has 28 shipping berths, 2 lighterage berths, 4 oil, 7 commercial moorings and a 4.0-feet deep approach channel for 75,000 dwt tankers. It is a general cargo and container handling port. Almost 90 per cent of Pakistan's exports are shipped from this port, which can handle 6 million tons of dry cargo and 2,000 freight wagons per day. KPT has, by eliminating chronic congestion, saved over $100 million per annum.

Port Bin Qasim Authority

This deep-water bulk-cargo port in Phitti Creek, mainly handling imports of commodities and raw materials, was set up under the Port Qasim Authority Act of June 1973. It has a multi-purpose terminal of seven berths of 200 metres each and a special-purpose heavy-duty iron ore and coal berth. Separate grain, oil, fertilizer and coal bulk terminals are envisaged.

Pakistan's ports handle 24.4 million tons of cargo (5.2 million tons of exports). If an average GDP of 7 per cent is anticipated, then additional facilities will need to be provided at Karachi and Port Bin Qashim within the period of the next (Eighth) Five-Year Plan. Adequate development funds have to be earmarked for improving this infrastructure.

Pakistan National Shipping Corporation

This Corporation has 22 vessels, with a capacity of 352,716 dwt. It operates liner services from Pakistan to USA/Canada (East Coast), UK/Continent/Middle East/Gulf and Far East. It also handles bulk shipments of wheat, fertilizers, phosphate and iron ore/coal, mostly through chartered vessels.

Dry ports

The international trade base of the country has been broadened by the setting up of dry ports whereby import and export facilities have been brought to the very doorstep of the up-country traders. They also help in inculcating an export culture and promotion of a business and investment climate in the country.

As dry ports are an inland extension of port Customs facilities, proper logistical support is essential. Exports can be facilitated if fully functional dry ports have sea, air and postal freight units, especially in the areas known for production/manufacturing of exportable commodities/goods.

The Government has set up dry ports at Lahore, Hyderabad, Sambrial (Sialkot), Peshawar, Multan,Quetta, Rawalpindi and Faisalabad and intends to extend this facility to Mirpur (AJK), Sukkur, Hub, Gilgit and Dera Ismail Khan.

Measures to attract foreign direct investment

Foreign direct investment (FDI) is being promoted in order to encourage foreign exchange inflows, advanced technology, managerial and technical skills and marketing expertise. To that end the following measures are applied:

- All foreign exchange controls have been abolished. Investors can now bring capital, issue shares, remit dividends or interest and transfer capital out of Pakistan without any restriction. They may also retain funds in foreign currency accounts in Pakistan and, if required, use them as collateral for local currency loans;

- Foreign investors are also allowed 100 per cent foreign equity in a project. There is no compulsion for the foreign investor to go public even if the paid-up capital exceeds PRs 100 million, provided his equity in the project is at least 51 per cent;

- Ceilings on payment of royalties and technical fees have been removed. Investors can now enter into contracts for transfer of technology and use of patent rights without approval by any government agency;

- Work permit restrictions on expatriate managers have been withdrawn. Investors can now employ or bring management and technical personnel of their choice. The expatriates can remit 50 per cent of their earnings on a regular basis and remit all their savings at the end of their tenure;

- No industrial approval is needed in most cases. Government approval has been done away with for all industries other than those included in the list of Specified Industries: arms and ammunition; high explosives; and radioactive substances;

- Establishment of power generation plants in the private sector is allowed. However, for the sale of electricity of the Water and Power Development Authority (WAPDA) and Karachi Electricity Supply Corporation (KESC), the entrepreneur will have to negotiate the terms of agreement with the concerned agency.

- Import licensing delays have been eliminated. Licensing formalities are completed by the bank which opens a letter of credit. Hence, industrialists no longer run from pillar to post to secure an import licence;

- All industrial units established in rural areas, until June 1995, are exempt from income tax for a period of five years; if established in backward areas, this facility is extended to eight years. Machinery not manufactured locally, if imported for rural or underdeveloped areas and/or for use by fertilizer, cement, engineering, mining and dairy industries, is exempt from customs duty and sales tax. Additionally, the sales tax exemption facility on local produce which should have been suspended by 30 June 1991, has been extended up to 30 June 1996 for industrial units to be set up in the provinces of the North West Frontier and Balochistan;

- All equipment imported for setting up private power plants, except that manufactured in Pakistan, will be exempt from customs duty and sales tax;

- The company that builds, owns and operates a private power station is exempt from corporate tax for the entire term of the Agreement;

- The performance of public sector agencies buying power or supplying fuel to the private power station is guaranteed by the Government.

Incentives and measures for export expansion

Export Finance Scheme

The State Bank of Pakistan (SBP) is the central bank of the country which, *inter alia*, provides export finance at concessional rates (i.e. 8 per cent mark-up) in accordance with the procedures for determining eligibility and authorization for export finance at the pre-shipment and post-shipment stage. Commercial banks can obtain refinance from SBP of up to 100 per cent of lending to their clients for a maximum period of 150 days, except for exports of carpets and rugs (180 days). Under Part II of the scheme, an exporter is limited in a financial year to export finance amounting to 5/12th of the export performance in the preceding financial year.

For the year 1991/92 all the scheduled banks were allowed limits in an aggregate amount of PRs 43.2 billion. Against these limits, the banks made use of refinance totalling PRs 60.1 billion (gross) from the State Bank during 1991/92, compared with PRs 49.2 billion in the preceding year. The outstanding level of refinance provided by the State Bank under the Export Finance Scheme stood at PRs 20.4 billion at the end of June 1992, compared with PRs 15.7 billion a year earlier, an increase of 29.9 per cent. (More recent information is not available).

Due to continuous adjustments in mark-up, reluctance in extending finance to exporters of non-traditional items and management's discretion in authorizing the limit of finance under Part I of the scheme, as well as their resorting to delaying tactics, this scheme has achieved limited success.

Duty draw-back

Customs duty, excise duty and sales tax paid by exporters on the import and local procurement of raw materials for the manufacture of export goods are refunded to them, as a percentage of f.o.b. export value, subject to observance of prescribed procedures for fixing and claiming of the amount. Duty draw-back, at varying rates for different items, is presently allowed on large number of export products. The value of goods for purposes of the duty drawback is the export trade price fixed for different items or the value of goods approved by the valuation committee or competent authority of Customs. Rates for different items are published in the Official Gazette.

Bonded warehouses

Under the bonded warehouse schemes the following facilities are available to exporters:

- Raw materials required for processing can be imported free of customs duty and taxes, under Customs supervision. The schemes cover the manufacture of goods primarily or wholly for export;

- Raw materials imported under bond can be used for manufacture anywhere outside the bonded premises on furnishing the necessary guarantees. The facility is available to manufacturers of garments, made-up textiles and printed and crocheted articles. Raw materials and machinery imported for the manufacture of goods intended for export are admitted free of customs duty and taxes;

- Manufacturers of made-up textiles and clothing, leather and leather products, chemicals and pharmaceutical goods, engineering and electronic goods, ceramics, furniture, sports goods, and surgical goods are eligible to operate under this scheme;

- Materials for processing, manufacturing repairing, embellishing or decoration, packaging etc., can be imported on a temporary basis, free of duty, for use in the export of specified goods;

- In addition to the above concessions, local manufacturers, can benefit from deferment of duties and taxes on the imported goods under the general scheme of private and public bonded warehouses. After export, they can claim refund of duties and taxes paid at the time of clearance from the bond, wherever permissible under the law;

- Imports of items which are banned or restricted, if required for use in the manufacture of goods for export, may be licensed from worldwide sources against cash up to the specified percentage of the f.o.b. value of exports. These licences are issued for replenishment within six months of actual exports and for advance licensing before export against a firm contract or letter of credit;

Export houses

- Trading companies with exports of not less than $7.5 million of exports in a year ($1 million for fruit and vegetables) are registered as export houses. Such export houses have access to the following facilities:

  - BMR facilities on behalf of individual importers;

  - Retention of 5 per cent of their foreign exchange earnings for export promotion;

  - A freight subsidy from EMDF for export of non-traditional items;

  - Machinery not available locally and imported for initial installation, expansion, balancing, modernization and replacement is totally exempt from customs duties if it relates to textiles, readymade garments, textile processing, tanning, boots and shoes, leather garments, ginning and engineering goods.

Income tax rebate

Profits and other income derived from exports of specified products are eligible for a 75 per cent rebate of income tax and supertax (readymade garments, textile made-ups, jewellery, pharmaceuticals, sports goods, fruit and horticultural products, cut flowers, leather garments and other products, hand-knotted carpets and rugs, ceramic files or wares, cutlery, engineering goods including electrical goods and surgical goods, etc). An income tax rebate of 75 per cent is also allowed on income from services rendered abroad in the fields of insurance, construction and tourism or from the export of manpower.

Export credit guarantees

Insurance guarantees are provided to exporters against risks of non-payment by foreign importers and to the commercial banks against failure of exporters to repay loans. Rates of premium vary according to country of destination of the exports, period of credit and terms of payment.

Payment of commission

Pakistan exporters are allowed payment of commission/brokerage to foreign importers/overseas agents at rates varying from 1 per cent to 10 per cent (33 per cent for books, journals and magazines).

General facilities

The following other facilities are available to exporters:

- Refund of Octroi duty under transit pass;
- Exemption from Octroi duty under the temporary retention scheme;
- Exemption of the carpet industry from social security and old age benefit schemes;
- Refund of import licence fees;
- Export of carpets as a baggage item;
- Visa and exchange facilities for business travel abroad;
- Insurance of warrantees for the service sector;

- Trade fairs;
- Export facilitation and inter-agency committees.

Institutional arrangements for export promotion

Ministry of Commerce

At the federal level, the Ministry of Commerce has overall responsibility for ensuring export promotion. The Ministry formulates an annual trade policy after extensive consultations with the private sector, the Federation of Chambers of Commerce and Industry, the Central Bank and other economic ministries. Trade policy is the main instrument through which the Ministry controls the flow of exports arising from the import of inputs. It also coordinates the function of various economic ministries of the federal Government to achieve the common objective of export promotion.

Export Promotion Bureau

The Export Promotion Bureau, an autonomous institution under the Ministry of Commerce , was set up in 1963. It is the premier organization, with an extensive network of regional and subregional offices actively engaged in export promotion. Through its Export Information and Advisory Centres, it continuously provides useful information to potential exporters on different aspects of trade, policy matters and procedures. Its regulatory functions include registration of exporters, arbitration of trade disputes, arranging participation in international fairs and exhibitions and implementing government policies in matters of quality control and the apportionment of quotas for textile exports.

Federal Export Promotion Board

The Federal Export Promotion Board is the high-level technical body, functioning under the Chairmanship of the President of Pakistan. The members include the Ministers of all the economic ministries, the President of the Federation of Chambers of Commerce and Industry, the Governor of the Central Bank, the federal Secretaries of all the economic ministries and the Vice-Chairman of the Export Promotion Bureau.

The Board, which is required to meet once in two months to review the country's export performance, has been dormant for some time. It provides the opportunity for a comprehensive dialogue between the Government and the private sector, for identifying specific export problems and considering remedial measures. It can also provide a mechanism to achieve coordination, consistency and functional harmony between official policies for achieving rapid export promotion and their implementation. There is need to reactivate this important forum.

Export Promotion Council

The Export Promotion Council (EPC) was established in 1965 to advise the Export Promotion Bureau (EPB) on policy issues and strategies in respect of export promotion and provide the necessary logistical support to the Bureau in implementation of the policies. It is headed by the Chairman of the Bureau, and its members include a nominee from each of the export promotion committees, the President of the Federation of Pakistan Chambers of Commerce and Industries, the President of the regional chambers of commerce and the Vice-Chairman of EPB. The Council, too, has not met for some time. Owing to the indifferent attitude of various departments, necessary support for the realization of the common objective (export promotion) is not forthcoming. It would be better if the Council were headed by the Minister of Commerce and if its decisions were circulated for strict implementation after their approval by the Prime Minister.

Executive Committee of the Export Promotion Council

The Executive Committee of EPC was constituted in 1971. It is headed by the Chairman of EPB, with members representing various government agencies and ministries dealing with economic development and financial management. Its non-official members include the presidents of the chambers of commerce and industries of various regions.

The committee periodically reviews export performance and the follow-up to decisions of the Council. No official record is available to indicate whether meetings of this committee have been held regularly or not.

Export promotion committees

There are almost 60 such committees, each dealing with improving exports of their respective products. Chambers of commerce and industry are more concerned about government concessions and withdrawal of duty on imports, so with greater government support these committees can effectively contribute greater production of exportable commodities.

Chambers of commerce and industry

Chambers of commerce and industry work as a bridge between the Government and traders to achieve harmony between government policies and legitimate business interests of the private sector and endeavour to establish just and equitable principles in trade and commercial activities.

Of 22 such chambers, only 10 are functioning properly. Apart from research and development functions, they should set up trade centres, arrange exhibitions and fairs, participate in international trade fairs, arrange visits of foreign delegations, and publish trade directories and other journals and reports, so as to keep their members abreast of the latest developments in domestic and international trade. However, they appear to be concentrating more on their narrow business interests and have not done their best for export promotion.

Cotton Export Corporation of Pakistan

The Cotton Export Corporation of Pakistan was established by the federal Government in November 1973 as a public sector organization to handle exports of raw cotton, diversify export markets and help to improve ginning and packing standards.

The Government has of late allowed private individuals/firms also to handle exports of raw cotton. Due to recession in the international markets and poor marketing skills, however, this change has not resulted in much improvement.

Rice Export Corporation of Pakistan

The Rice Export Corporation of Pakistan (RECP) was set up in 1974 as a private limited company, to carry out procurement, storage, quality control and export of rice from Pakistan. The Government has since allowed the private sector also to export rice, which has largely rendered RECP redundant.

Technological incentives for export promotion

Import of machinery for cutting, polishing and shaping stones

The technology being used in Pakistan for commercial exploitation of granite and other stones is primitive. This explains why exports of stones, blocks, slabs and tiles are negligible. To promote and encourage use of high technology it is imperative to facilitate imports of state-of-the-art machinery for cutting, polishing and shaping stones. It is therefore proposed that imports of both conventional and high-tech machines, including laser machines, used for cutting, shaping and polishing stones be allowed without payment of duty, sales tax and import licence fee.

Establishment of training institutions

In order to improve technical capability and skills in ancillary industries, the following projects have been approved at a total cost of PRs 125 million, borne by the Export Development Fund:

Pakistan Weaving and Dyeing Institute for towel making (Karachi and Lahore);
Pakistan Bedwear Design Institute, Karachi;
Pakistan Fashion Apparel Design Institute, Lahore;
Pakistan Knitwear Institute, Karachi;
Research and Training Centre for Silk and Rayon, Karachi;
Pakistan Gem-Cutting Training Institute, Karachi;
Readymade Garments Technical Training Institute, Karachi;
Pakistan Cutlery Institute, Wazirabad;
Pakistan Knitwear Institute, Lahore;
Facility-*cum*-Training Centre for Leather, Kasur.

Funding by the Export Development Fund is confined to the cost of building and machinery; costs of maintenance and all operating expenses are borne by the concerned Association. The training institutions will be managed by their respective managing committees, comprising members of the Associations. The Export Promotion Bureau will also be represented on the managing committees.

Acquisition of new technology

As a result of the reduction of tariff barriers and greater exposure to international competition, local industry will have to continuously upgrade its technology if it is to maintain competitiveness in international markets. In view of the rapid technological developments taking place in the world, it needs the support of an institutional mechanism for acquisition of new technology.

The Ministry of Commerce, in collaboration with the Ministry of Science and Technology, as well as the respective industries concerned, would prepare a technology delivery system for specific industries having comparatively greater potential for exports. Industry-specific working groups, consisting of representatives of the concerned industry and relevant science and technology institutions and financial experts, will be constituted to develop detailed market-oriented strategies for making maximum use of available technologies. The costs involved in developing and implementing the strategy, including the services of foreign consultants, would be met through assistance from international agencies and funds available under EMDF.

Services to small and medium-sized exporters

The Export Promotion Bureau has prepared a scheme entitled "Enterprise Initiative Consultancy Scheme" under which small and medium-sized exporters would be provided consultancy services for overcoming production and marketing problems. This is essential for the competitiveness of Pakistan's exports.

IV. EXPORT OUTLOOK UP TO THE YEAR 2000

Economic and non-economic factors will continue to play a key role in influencing Pakistan's export outlook. As noted above, raw and processed cottong has been the single largest source of export earnings (60 per cent), followed by rice (5.0 per cent). But these exports are dependent upon weather conditions, and the crops are also vulnerable to attack by virus. In the last two years (1992/93 and 199/94) the cotton crop has been severely damaged as a result of floods and the leaf curl virus, and the lost momentum is unlikely to be regained in 1994/95. Exports in that year are therefore likely to remain depressed.[5] A disturbed law and order situation and political uncertainty are the other non-economic factors which have affected exports adversely in the past. These factors will remain crucial elements in years to come for the revival of export growth.

In order to generate forecasts of exports and their major components, such as cotton, rice, and leather, up to the end of the century, use has been made of the basic export equations developed by Khan and Khanum (1994) and described in annex II. This involves forecasting values of exogenous variables such as world GDP and world prices of exports as well as export prices, incomes and the general price level in Pakistan. These values have been taken from different sources or generated on the basis of past trends. The world GDP index is that of Project LINK. World export prices and those of Pakistan are obtained by taking their average movement over the last five years, while future domestic income comes from forecasts made by the Pakistan Institute of Development Economics.[6] (For annual forecasts of these variables see annex III). It is obvious from the choice of exogenous variables that Pakistan's exports both depend on domestic and external factors. An improvement in world economic activity, represented by the world GDP index, would increase demand for Pakistani exports. If the domestic export price is high relative to international prices, this is likely to reduce export demand. On the other hand, an increase in the supply of exportables will increase exports, and if the domestic export price is high relative to the country's general price level, exporters should be encouraged to sell abroad.

With the help of estimated export equations and values for the exogenous variables, forecasts of key exports and of total exports have been made (see table 4). They do not present an encouraging picture. Total exports are projected to increase at an average rate of 6.7 per cent per annum in current dollar terms, rising from $6,753 million in 1993/94 to $9,912 million by 1999/2000. Cotton, the major export, is likely to lose its importance gradually over the forecast period, with exports rising annually by only 3.7 per cent (from $3,871 million to $4,787 million). Its share in total exports will decline from 57.3 per cent to 48.3 per cent. The cotton crop has been severely damaged by a leaf curl virus attack in 1992/93 and 1993/94 and is also likely to be affected in 1994/95. Thus, during the first two years of the forecast period (1993/94 and 1994/95), export earnings from cotton are likely to decline.

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[5] Cotton production was 12.8 million bales in 1991/92, declined to 9.01 million bales in 1992/93 and is likely to be in the neighbourhood of 7.6-8.0 million bales in 1993/94. Since domestic requirements of the textile industry amount to some 9.0 million bales, Pakistan will probably be a net importer of cotton in 1993/94.

[6] See S.N.H. Naqvi *et al.* (1992) for these forecasts.

Export earnings from rice are projected to increase by an average of 5.6 per cent per annum, from $370 million in 19933/94 to $514 million in 1999/2000. As a share of total exports, they are likely to remain roughly constant, at around 5.5 per cent. Earnings from leather are predicted to rise by an average of 6.7 per cent, from $674 million to $997 million, and like rice their share in total export earnings is likely to remain constant (at about 10 per cent).

This outlook for exports is not encouraging precisely because of the concentration of export earnings on a few commodities. As mentioned above, it will take some time for cotton exports to regain their lost momentum. The sooner Pakistan can overcome the leaf curl virus problem the better for its cotton exports. Furthermore, it is essential to diversify the export structure.

Realizing the gravity of the problems lying ahead, the Government has established a Task Force on Exports with a view to identifying major impediments to export. The Task Force has already submitted a number of recommendations, the implementation of which has been initiated. Some of its major recommendations are given in annex IV.

Table 4: Forecast of major exports up to 1999/2000

(Millions of dollars)

	Cotton	Rice	Leather	Others	Total exports
1993/94	3 871	370	674	1 838	6 753
1994/95	3 755	391	724	1 950	6 820
1995/96	3 920	413	785	2 009	7 127
1996/97	4 120	437	829	2 119	7 505
1997/98	4 347	460	884	2 354	8 045
1998/99	4 551	486	91	2 882	8 850
1999/2000	4 787	514	997	3 614	9 912
Annual increase (Per cent)	3.7	5.6	6.7		6.7

NOTE: For sources and methods, see text and annex III.

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Annex I

ESTIMATED REGRESSION RESULTS FOR TRADE MODEL[a]

EQUATION 1 (Export demand for primary products):

$$\ln(XP) = 6.54 + .255\ln(WGDP) - .111\ln(PXP/PXW\$) + .617\ln(ER)$$
$$(2.7)\quad(.39)\qquad\qquad(-.39)\qquad\qquad(1.94)$$

$$R^2 = 0.58, \quad DW = 1.92$$

EQUATION 2 (Export demand for manufactured products):

$$\ln(XM) = 0.466 + .134\ln(WGDP) - .353\ln(PXM/PXW\$) + 1.278\ln(ER)$$
$$(.29)\quad(2.78)\qquad\qquad(-2.27)\qquad\qquad(4.37)$$

$$R^2 = 0.92, \ DW = 2.1$$

EQUATION 3 (Export supply of primary products):

$$\ln(PXP) = 2.02 - .208\ln(XP) + .395\ln(GDP) + .25\ln(P) - .537\ln(PXP(-1))$$
$$(-.53)\quad(-1.59)\quad(.80)\qquad\qquad(50)\qquad(3.02)$$

$$R^2 = 0.967, \ DW = 1.78$$

EQUATION 4 (Export supply of manufactured products):

$$\ln(PXM) = -9.801 - .490\ln(XM) - .1311\ln(GDP) + .6201\ln(P)$$
$$(-1.39)\quad(-2.02)\qquad(1.55)\qquad\qquad(1.65)$$

$$R^2 = 0.90, \ DW = 1.55$$

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[a] Derived on the basis of three-stage least squares.

EQUATION 5 (Import demand for industrial raw materials):

$$\ln(MIR) = \underset{(-2.5)}{-10.55} + \underset{(2.7)}{1.367}\ln(GDP) + \underset{(2.12)}{0.446}\ln(PMIR/P) + \underset{(1.54)}{0.095}\ln(FERC)$$

$$- \underset{(-3.23)}{1.134}\ln(ER) + \underset{(3.77)}{0.558}\ln(MIR(-1))$$

$R^2 = 0.976$, $DW = 1.40$

EQUATION 6 (Import demand for manufactured products):

$$\ln(MMG) = \underset{(-1.67)}{-7.01} + \underset{(3.26)}{1.42}\ln(GDP) - \underset{(-4.62)}{.79}\ln(PM/P) + \underset{(0.65)}{.054}\ln(FERC) - \underset{(-1.09)}{.338}\ln(ER)$$

$R^2 = 0.60$, $DW = 1.408$

EQUATION 7 (Price equation):

$$\ln(P) = \underset{(1.33)}{0.252} + \underset{(2.13)}{.047}\ln(M2) + \underset{(5.64)}{.141}\ln(PMIR) + \underset{(4.79)}{.106}\ln(PMMG)$$

$$- \underset{(.52)}{.338}\ln(GDPP/GDP(-1)) + \underset{(7.79)}{.593}\ln(P(-1))$$

$R^2 = 0.99$, $DW = 2.69$

INSTRUMENT SET

{ln(WGDP), ln(gdp(-1)), ln(PXW\$), ln(PMIR), ln(FERC), ln(GDPP), ln(XP(-1)), ln(XM(-1)), ln(PXM(-2)), ln(MIR(-1)), ln(MMF(-1)), ln(MMG(-2)), ln(PXP(-1)).

The variables used in the above model are as defined below:

XP = Exports of primary products in real terms
WGDP = Index of world gross domestic product (GDP) in real terms
PXP = Rupee price index of primary products
PXWS = Dollar price index of world exports
ER = Exchange rate (rupees per dollar)
XM = Exports of manufactures in real terms
PXM = Rupee price index of exported manufactures
P = Implicit GDP deflator
MIR = Imports of industrial raw materials in real terms
PMIR = Rupee price index of imported industrial raw materi
PMMG = Rupee price index of imported manufactures
FERC = Foreign exchange reserves
MMG = Imports of manufactures in real terms
PM = Rupee price index of total imports
M2 = Money supply
GDPP = Potential GDP in real terms
In = Natural logarithm

Annex II

EQUATIONS USED FOR FORECASTING EXPORTS[a]

Total exports

Export demand function:

$$\ln X^d = \underset{(3.49)^*}{-3.12} + \underset{(23.69)^*}{2.03 \ln Y_w} - \underset{(2.03)^*}{0.27 \ln \left[P_x(\$)/P_w(\$)\right]}$$

$$\bar{R}^2 = 0.90\ ;\ DW = 1.12\ ;\ SER = 0.14$$

Export supply function:

$$\ln X^s = \underset{(5.03)^*}{-6.27} + \underset{(14.62)^*}{1.17 \ln Y} + \underset{(1.94)^*}{0.29 \ln \left[P_x(\$)\ {}^*e^R/P_g\right]}$$

$$\bar{R}^2 = 0.92\ ;\ DW = 1.23\ ;\ SER = 0.13$$

Rice exports

Export demand function:

$$\ln X^d = \underset{(1.87)^*}{-4.57} + \underset{(5.37)^*}{2.33 \ln Y_w} - \underset{(0.44)}{0.07 \ln \left[P_x(\$)/P_w(\$)\right]}$$

$$\bar{R}^2 = 0.56\ ;\ DW = 0.71\ ;\ SER = 0.48$$

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[a] Derived on the basis of three-stage least squares.

Export supply function:

$$\begin{array}{lllll} \ln X^s = & -8.14 & + \; 1.27 \ln Y & + \; 0.11 \ln \left[Px(\$)^* e^R / P_g\right] \\ & (2.32)^* & (4.65)^* & (0.63) \end{array}$$

$$\bar{R}^2 = 0.47 \; ; \; DW = 0.69 \; ; \; SER = 0.52$$

Cotton exports

Export demand function:

$$\begin{array}{lllll} \ln X^d = & 6.09 & + \; 3.43 \ln Y_w & - \; 3.43 \ln \left[P_x(\$)/P_w(\$)\right] \\ & (1.79)^* & (5.19)^* & (2.72)^* \end{array}$$

$$\bar{R}^2 = 0.89 \; ; \; DW = 1.65 \; ; \; SER = 0.06$$

Export supply function:

$$\begin{array}{lllll} \ln X^s = & -8.72 & + \; 1.59 \ln Y & + \; 0.59 \ln \left[P_x(\$)^* e^R / P_g\right] \\ & (1.95)^* & (4.53)^* & (1.99)^* \end{array}$$

$$\bar{R}^2 = 0.69 \; ; \; DW = 1.87 \; ; \; SER = 0.04$$

Leather exports

Export demand function:

$$\begin{array}{lllll} \ln X^d = & -1.46 & + \; 1.76 \ln Y_w & - \; 0.42 \ln \left[P_x(\$)/P_w(\$)\right] \\ & (0.79) & (3.73)^* & (3.13)^* \end{array}$$

$$\bar{R}^2 = 0.63 \; ; \; DW = 0.87 \; ; \; SER = 0.30$$

Export supply function:

$$\ln X^s = -1.70 + 0.75 \ln Y + 0.36 \ln [P_x(\$)^* e^R/P_g]$$

$$\bar{R}^2 = 0.58 ; \; DW = 1.08 ; \; SER = 0.27$$

Note: t- statistics are in parentheses.
* = Significant at the 5 per cent level.
X^d = export demand; X^s = export supply; Y_w = world GDP index; Y = GDP (domestic income); $P_x(\$)$ = index of dollar price of domestic exports; $P_w(\$)$ = index of dollar price of world exports; e^R = effective exchange rate; P_g = GDP deflator (domestic price level).

VALUES ATTRIBUTED TO EXOGENOUS VARIABLES USED IN FORECASTING

Year	World GDP (1981 = 100)	GDP of Pakistan (*PRs billion*)	Dollar price of domestic exports (1980/81 = 100)	Dollar price of world exports (1980/81 = 100)	Implicit GDP deflator (1980/81 = 100)	Effective exchange rate (1980/81 = 100)
1993/94	142.0	511.8	95.1	163.1	277.6	227.1
1994/95	146.4	537.8	96.2	176.5	309.5	253.0
1995/96	150.8	566.9	97.6	188.1	342.0	266.9
1996/97	155.0	599.2	99.9	198.1	374.8	272.8
1997/98	160.0	635.7	96.9	219.9	407.8	301.2
1998/99	164.3	675.2	98.9	231.1	438.8	320.7
1999/2000	169.7	719.0	100.8	246.2	467.7	337.4

[a] In constant prices of 1980/81.

Annex IV

SUMMARY OF RECOMMENDATIONS OF THE TASK FORCE ON EXPORTS

Policy consistency and transparency

The system needs to be made more transparent by reducing the discretionary powers presently available to the executive arm of the Government, to introduce changes in duties and tax rates and to modify the scope and period of exemptions and concessions legislated by Parliament. Executive orders or SROs should only be used on matters concerning the implementation of an Act or of policy approved by the Cabinet.

Duty draw-backs

The Government should initiate measures to develop a scheme under which exporters would not be required to pay duties and taxes on their import requirements.

Duty draw-back refunds should be disbursed within 15 days of the shipment of goods.

As an interim measure the existing bond schemes should be simplified and made workable to facilitate their use by exporters.

The cut in duty draw-back rates should be immediately rolled back to the extent of 50 per cent of the cut.

Future downward revision of rates, when necessary, should be staggered over a period of six months.

The fixing of duty draw-back rates should not take more than three months from the date the exporter applies for them.

For tariff and quota countries there should be no price checks.

Availability of credit

Banks should be mandated to provide credit (other than project finance) within two weeks from the date of application by the exporter, provided adequate security is offered.

To encourage small and medium-sized exporters, credit should be provided against an export credit guarantee.

Convertible bonds should be encourage by bringing them to par in terms of fiscal treatment with other financial/capital market instruments.

The feasibility of establishing an Export Bank for meeting credit requirements of the export sector should be examined.

Exporters should be allowed to borrow abroad on their own strength and at their own risk.

Fiscal treatment of financing provided by leasing companies registered abroad denies Pakistani exporters access to cheap funding. The taxation laws need to be amended to enable Pakistani exporters to tap such opportunities.

Export Finance Scheme

Export finance under the Export Finance Scheme should be made available at 6 per cent per annum.

Some members are of the view that concessional schemes create distortions and are prone to misuse and as such need to be done away with when the rupee is made fully convertible.

Rationalization of the lending rate structure

Immediate rationalization of the lending rate structure is recommended. Restructuring of loans outstanding against industrial units which have run into problems should be urgently taken in hand.

Exchange rate mechanism

The rupee should be made fully convertible as early as feasible. As a first step to the achievement of full convertibility exporters should be allowed to retain 40 per cent of their export earnings for sale in the free market and meeting their own import requirements.

Forward exchange cover also needs to be reviewed and rationalized. The export forward rate at present is adverse.

Clubbing of levies

These levies should be clubbed together and deducted as a percentage from export proceeds of the export-oriented units.

Appointment of an Ombudsman

An Ombudsman should immediately be appointed, who would deal exclusively with the grievances of exporters.

Quality of export products

Quality standards such as ISO 9000 should be developed and strict compliance with them ensured. An effective inspection mechanism should be put in place to ensure that the quality of goods is not compromised.

Imports of machinery and spare parts required for production of export quality goods by export units should be allowed without levying customs duty and indirect taxes.

Vocational training institutes should be established for training manpower in skills which are necessary for producing quality goods.

Marketing strategies

The Export Promotion Bureau and commercial attachés should acquire the art of aggressive marketing and become more active in marketing exports from Pakistan.

Pakistani products should be introduced in the prospective markets and information on market conditions should be collected by the Export Promotion Bureau and promptly disseminated amongst the exporters.

Export promotion campaigns should be undertaken through display of export products at departmental stores abroad.

Exporters should be encouraged to participate in overseas trade fairs.

Publicity brochures, etc. should be printed and widely distributed by Pakistani embassies abroad.

Improvement in infrastructure

Immediate measures should be taken for the establishment of more power-generating plants, construction of roads and exploration of oil and gas.

The communications system should be made more efficient.

Arrangements should be made for the supply of adequate water.

Quota management

Quota management policy should be reviewed with a view to removing flaws, allowing new and small exporters access to quota countries and making big exporters find new markets. Twenty-five per cent of the growth quota should be reserved for new entrants.

Autonomy of the Export Promotion Bureau

The Export Promotion Bureau should be made autonomous and be managed by a Board of Directors nominated from among private sector exporters.

STRATEGIES FOR EXPORT SECTOR DEVELOPMENT: EXPERIENCE OF THE PHILIPPINES

Luis M. Berrei[*]

I. A REVIEW OF POSTWAR ECONOMIC AND TRADE PERFORMANCE

Import substitution

From 1945 to the early 1970s, the Philippine economy had a classic import substitution structure. To stem the outflow of foreign exchange, the Government aimed to establish a "self-sufficient" economy on the premise that a strong domestic market existed for non-basic goods. Domestic industries were protected through various forms of subsidies, tax incentives, tariffs, import controls, and an overvalued exchange rate.

The result was a vibrant consumer goods industry and diversified manufacturing activities. But since the structure reflected a bias against backward integration, there was heavy dependence on imported raw materials and capital equipment. Manufacturing was largely assembly and packing, very capital-intensive, and contributed little to employment. Gross domestic product grew by 6. per cent annually from the 1950s to the early 1960s. Exports, which were predominantly agricultural and mineral products, increased annually by around 5 per cent in the 1950s and by 8 per cent in the 1960s.

Initiatives in favour of export-oriented industrialization

The 1970s saw the beginning of economic liberation. With export orientation and investment promotion as primary goals, the Government started dismantling the protectionist structure and other impediments to free trade.

Import and exchange controls were abolished and the peso was devalued against the dollar. The economy was opened to foreign investments via the Investment Incentives Act, which created the Board of Investments for designated areas of investment and compounding incentives. The Export Incentives Act of 1970 was enacted to stimulate non-traditionalexports, and was supplemented by a passing of Presidential Decree which encouraged the use of labour-intensive methods and created export processing zones.

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As a result, the share of non-traditionalexports, mainly garments and electronics, grew from 18 per cent in 1973 to 61.2 per cent in 1983. However, the new exports were still largely import-dependent; the limited domestic value added did not raise significantly the contribution of the manufacturing sector to real domestic product. Moreover, the Government's higher spending, government guarantees for private foreign borrowing, and the bailing out of failed investments saddled the country with bad debts and led to a serious balance of payments crisis. GDP growth from 1965 to 1980 averaged 5.9 per cent.

The debt crisis of the 1980s

By 1983, the Philippines had an external debt of $24.6 billion. The assassination of a popular political figure in 1984 triggered a close-down of all trade credit lines by foreign banks and massive capital flight depleted the country's dollar reserves.

To arrest the deteriorating situation, the Government was forced to take drastic measures and place the country under a structural adjustment programme in exchange for new loans and debt rescheduling.

By 1985, the adjustment programme had wiped out the current account deficit and a surplus was registered in 1986, as the decline in imports outpaced that in exports. Foreign debt arrears were paid and the inflation rate was curbed. But the adjustment programme took a heavy toll on the economy. Real output fell sharply and per capita income and capital formation dropped as industrial output contracted. Exports declined by an average of 2.2 per cent per year from 1983 to 1985, while GDP growth fell by 6 per cent in 1984 and 4.3 per cent in 1985.

Economic transition: momentary recovery

In 1986, a new Government took over and immediately went to work to address the $26 billion external debt, a nearly bankrupt treasury, an oversized bureaucracy and a battered economy. It initiated a development strategy that was employment-oriented and rural-based.

Among its major policies were the privatization of state-owned corporations and sale of non-performing assets, the reduction of import controls on industrial raw materials and capital goods, the resumption of a tariff reform programme, various tax reforms, including the introduction of value added tax, the liberalization of foreign investment laws and the elimination of price controls and import taxes on agricultural commodities.

These initiatives, combined with renewed confidence in the Government, drove the economy's expansion, at an annual rate of 6.8 per cent from 1986 to 1989. The recovery was consumption-led, but overall investment growth became more pronounced in the second half of 1988 as investment surged. The increased investments reduced unemployment from 12.5 per cent in 1985 to 9.6 per cent in 1988. Exports rebounded, increasing by an annual average of 14 per cent from 1988 to 1988.

This recovery, however, proved to be unsustainable. The manufacturing sector remained inefficient, sheltered behind high protective walls and using excessively capital-intensive techniques. Economic growth was made possible by an extremely rapid growth of imports of capital and intermediate goods, far outstripping export growth.

The collapse of the Philippine recovery was precipitated by a series of coup attempts and intensified by natural and man-made calamities. On the international front, the recession in developed countries continued to dampen demand for exports. Confronted by a harsh economic environment in 1991, the Government momentarily set aside its growth objectives and adopted an adjustment programme that centred on prudent fiscal measures and tight monetary policy. GDP growth dropped to 2.5 per cent in 1990 and to 1 per cent in 1991. Export growth dropped to an annual 4.65 per cent during these two years.

II. EXPORT PROMOTION

Export: The key to Philippines 2000: "Export to Survive!"

This battlecry is not an exaggeration when used to describe the present attitude to exports of the Government and business leaders. Presidential Proclamation No. 167 of 20 April 20 1993 declared export development as the key to program the goal of turning the country into a newly industrialized one by the turn of the century. On the same year, Presidential Order No. 98 created the Export Development Council (EDC) to oversee the various national export development efforts. EDC is a superbody composed of top government officials and business leaders and considered crucial to attain the export growth envisaged up to 1998.

For its part, the Department of Trade and Industry (DTI), in cooperation with the leaders and members of 54 major industry/export associations and in consultation with, and technical assistance from the Asian Institute of Management and UNDP, has developed, through a series of regional workshops, what is now known as the Medium Term Philippine Export Development Plan (PEDP). This process of elaborating on the existing national export plan deserves emphasis; it is the first export plan drawn with full private sector participation. The principle is that if the private sector "owns" the plan, it will be committed to and work for its success. PEDP focuses on strategic rather than operational planning and is therefore more pragmatic. The Bureau of Export Trade Promotion, under the DTI and also an active participant in the planning process, has been assigned the task of monitoring and helping implementation of the PEDP.

Export targets

The Medium-Term Plan provides an average annual growth of exports of 15 per cent from 1994 to 1998, to reach a value of $28 billion. By that year exports should be the equivalent of 30 per cent of GNP, an 80 per cent improvement over 1993.

In close consultation with exporters, priorities were set to select those products and product categories with the best chances of competing in the world market. Fifteen products, aptly called the "export winners", were selected, and are scheduled to account for over 80 per cent of targeted exports. Their performances in comparison to projections is closely monitored by BETP and EDC. A list of "emerging winners" is regularly compiled to reflect changes in market demands.

To attain the targets, a two-pronged strategy has been adopted. The first aims to attract more investment both domestic and foreign (FDI) in export production. The second, a World Competitiveness Programme, is focused on facilitating the efforts of the export winners and emerging winners to reach their targeted markets by streamlining every step of the export process and applying Total Quality Management (TQM) from the factory to the final point of sale.

The Plan incorporates other innovations. Each export winner is formed into a team led by an "export champion", drawn from the ranks of successful exporters. The teams generate competition among themselves to achieve and surpass targets. Additionally, a council of market area advisers continuously studies and seeks for niches in the five market blocs which were also identified during the planning workshops.

Certainly, EDC, as the export superbody, should also contribute in creating an export-friendly environment, as the top government members (mostly of cabinet rank) meet monthly with exporters (also members of EDC) to identify opportunities for policy reform, including fiscal reform.

But why has the Philippines focused on FDI and world competitiveness as primary vehicles for its export drive?

The Philippines in an expanding/shrinking world

As the highly developed countries push for the opening of markets, they may in fact be closing some market doors. To many developing countries like the Philippines, "globalization" is both an opportunity and a threat. The free market system seeks to equalize and create a level playing field, but the poorer countries continue to struggle with limited funds, eroding natural resources, second-hand technology, poor infrastructures and deficient policies resulting from their own poverty.

While efforts are being strengthened to open markets, there is a tendency for countries to group together into single markets. The territorial fences of Europe have been dismantled, but the trading wall around Europe may have been strengthened. There are other examples of protective shields that threaten the very survival of countries with weaker economies such as NAFTA, AFTA and APEC. Even the Philippines and its close neighbours are pursuing regional collaboration such as: the growth quadrangle involving northern Luzon/Taiwan Province of China/Hong Kong/Southern China; a Hanoi-Bangkok-Manila Axis; and an economic growth sphere covering Mindanao/Sabah/Brunei-Darussalam and parts of Indonesia.

Simultaneously, the Asia-Pacific Region is living up to predictions of spawning new economic dragons. Singapore is consolidating its resources to be the world's "Total Business Centre". The export industries of Indonesia, benefiting from that country's aggressive and continuing policy reforms, are doing better than ever, making up for whatever losses may have been incurred from collapsing oil prices. Thailand has taken a unique growth route as a newly "agro-industrialized" country. Malaysia has adopted higher and more sophisticated technology to upgrade its exports. Even Viet Nam, with its vast natural resources and recent subscription to free enterprise is poised to take the "big leap".

The Philippines recognizes that countries are continuously aligning and realigning and that the world export business is becoming more and more competitive. It is in this dynamic, competitive arena that Philippine exporters must fight for niches and spaces.

While the Philippines has a separate Board of Investments (BOI), which is in full charge of its investment programme, the acquisition capital and technology remains a major concern of the Bureau of Export Trade Promotion (BETP), the functions of which are described below. It is necessary to enhance the country's supply capability and upgrade the quality of its export products. New industries are required that will support the export sector and themselves become sources of new export products - the textile industry for garments; the packaging industry for food products and other consumer goods; the petrochemical industry for basic manufacturing, etc.

The Government has set up the Subic Bay Metropolitan Authority (SBMA), the country's first and only freeport. Located in the sprawling former naval base of the United States, Subic is now an independent customs territory where manufacturers can import raw materials and capital goods tax and duty-free. These manufacturers are exempted from national and local taxes, offered permanent residence, and assured of basic infrastructure and services. Subic is also a free and multi-currency area.

The Philippines has also created exports processing zones (EPZs) in proclaimed growth regions; Calabarzon in Southern Luzon, Metro Cebu in the Visayas; and the Mindanao Corridor, where 56 major industrial, agricultural and infrastructural projects have been identified for implementation.

World competitiveness: The only way

"Quality and utility" will describe our export products, "reliability and innovativeness" will in turn describe our exporters. In order to live up to these expectations, both internal and external factors have to be well managed so as to create an export-friendly environment. The focus of policy is thus on the related issues of foreign exchange, interest rates, labour productivity, tariff and tax structures, and infrastructure (both physical and institutional).

Networking committees under the Export Development Council have been established to deal with each of these subjects. They report monthly to EDC. The minimum objective is to secure for national exporters the same conditions as are enjoyed by their major competitors in the region.

An overvalued peso, for example, is a continuing handicap to exports. The strength of the peso, however, is largely due to high interest rates, restrictions on the entry of foreign banks, and the limitation of government Treasury Bill to high denominations. It is on these areas that the EDC Networking Committee on Foreign Exchange concentrates.

At the company level, regular factory visits are made by high-ranking BETP officials and executives, together with the winning export teams. Close attention is given to the application of quality control. Regular seminars and training courses are conducted. Foreign consultants and experts are invited to introduce product innovations. Technology infusion is also encouraged through outright investment or joint ventures.

Industry associations are called on to police their own ranks. Violators are dropped from endorsement lists and their names and offenses circulated to traders and key government agencies.

Marketing is perhaps the area of deepest concern. Communication, particularly the creation of awareness, is high on the priority list. An international advertising campaign revolving around the storyline "MADE IN THE PHILIPPINES, MADE FOR THE WORLD", has been prepared. A computerized Trade Information System (TIS) is being tested for commercial viability by the biggest grouping of exporters.

Many related activities too detailed to include here are also on stream, but the main message is that "competitiveness" is regarded not merely as a comparative product feature, but as a critical input in design, manufacturing and marketing - i.e. it is a total process, from conception to delivery.

BETP as the flagship of the export drive

The Bureau of Export Trade Promotion (BETP), under the Department of Trade and Industry, is responsible for both formulation and implementation of the national export strategy. It assists exporters by providing key services, linking foreign buyers and domestic producers and the government and private sectors. It oversees the country's export programme.

It has three major operating units: a Product Research and Strategy Group (PRSG); a Market Strategy and Consultancy Group (MSCG); and a Trade Information and Advisory Group (TIAG). It provides each export winner team with product and market officers, who help formulate and implement strategies,

TIAG, in addition to generating and disseminating information, also operates the EXPONET (one-stop export office located in key areas) and TRADELINK, a computerized source of relevant data for both exporters and buyers.

The BETP Director has also been appointed Executive Director of the Export Development Council Secretariat and export-related projects with international funding. Thus, efforts are unified and coordinated.

With the export winner team, BETP undertakes deeper analysis of performance, using the HOSHIN ("cascading") PLAN, so called because it stresses the active participation and interaction of all sectors.

Opportunities are highlighted in this continuing analysis and, when necessary, brought up in the EDC for better appreciation. Since the BETP Director is also Executive Director of the EDC Secretariat, the link to this export superbody is strong and direct.

Export winner teams are also required to present programmes and express their concerns to EDC, which meets every month and EDC in turn meets with the President of the Philippines every quarter.

Structure of exports

The Philippines was Asia's economic dragon in the 195Os and 1960s. In the 1970s, the imposition of martial law and the attending unrest applied a brake to the country's economic growth. In 1983, political assassinations triggered widespread demonstrationsand a massive capital flight, resulting in the country's most severe postwar crisis. Exports went on a tailspin to a record low of $4.5 billion. With a new Government in 1986, political and social rebuilding took centrestage, so that in 1993 the country recorded its best export performance, with exports of $11.3 billion, or two and a half times the 1983 level.

The Philippines has managed its man-made and natural disasters (earthquakes, floods and major volcanic eruptions occurring in the 1980s) and today has the optimism that it will achieve NIE status by the year 2000. It stands on the threshold of a new economic era. It has weaned away from total foreign dependence and although North America remains its leading export market, Europe as a whole has become its second biggest market. Its most rapidly growing market is in South-East Asia.

In terms of commodity structure, there is now a better product mix. Manufactures now account for about 90 per cent of total exports, outpacing in growth the more volatile and price-sensitive commodity items. Major exports are industrial products (electronics), manufactured consumer goods (garments and furniture), food (marine and fruits) and resource-based products such as "nata de coco", marbles and carrageenans.

Commercial characteristics of exporters

Small and medium-sized enterprises (SMEs) account for the bulk of Philippine exports. They are therefore given special attention and their countrywide expansion is a major concern, particularly in the area of infrastructure. Nevertheless, export readiness is the primary criterion for supporting the SMEs. They are first encouraged to be subcontractors to the more experienced exporters while workshops, seminars, training programmes and technology infusion is encouraged to make them more competitive and prepare them as new exporters.

Exporters are primarily in the private sector, and the state trading organization (Philippines International Trading Corporation) is mandated to trade only with socialist and centrally planned economy countries, where the private sector is handicapped by bureaucracy and unclear policies, and where foreign exchange is limited. It gets round problems of currency availability through countertrade, but even this is open to the private sector if it wishes to participate. Eventually, the Corporation will be privatized along with the few remaining other government-owned corporations.

Comparative and competitive advantage

It has been seen that the Philippines is moving away from its traditional comparative advantage associated with bountiful natural resources and cheap labour towards more specific and sophisticated competitive advantages. The country is a major world producer of coconut and fully one-third of its population depends directly and indirectly on coconut as a crop.

From the traditional copra and coconut oil, the Philippines has developed "nata de coco", a product made out of coconut milk, water and a fermentation agent. It is today primarily consumed as a health food because of its high fibre content. Japan buys 95 per cent of the country's "nata de coco" ouput. Total exports of the product were $1 million in

1992, and rose to over $25 million in 1993. It is now classified as an emerging winner. Additional usage of the product is, however, the more exciting prospect, as laboratory research indicates that it can be used for skin grafting, micro chips, capsule "skin", and components for sound speakers and other audio devices. Underlining the country's desire for good quality, there is a mandatory requirement, requested by the producers themselves, of quality approval by testing laboratories (selected by the Government and the private sector) prior to shipment.

In addition to "nata de coco", the development of coir peat and coir fibre is also being pursued, as a response to European (and world) concern for environmental preservation.

Labour is no longer considered as cheap. Rather, the Philippines now offers a computer-literate, English-speaking and trainable, skilled pool of workers.

In design and craftsmanship, the country is the "Milan of the Far East", underlining its capacity for superior design and craftsmanship. A major effort is being made to promote "contract sales" by where Philippine architects and contractors build hotels and commercial establishments and supply custom-made furniture, decor and furnishing, instead of selling such items by the piece.

III. CONCLUSION

A plan, however well drafted, will not succeed unless all its components blend into a single thrust. Thus, the merging of private and public efforts is necessary, with the theme "World competitiveness" as an integrating element. This will be further reflected in various brochures that will present a single design, colour and theme.

From production to marketing, the Philippine exporting efforts will be singular and consistent.

Outlook for export expansion to the year 2000

The economic needs of the country as well as current international economic trends, dictate that the export sector must rise to the challenge of global competitiveness.

With export-led agro-industrialization as the key to achieving the Philippines 2000 vision, exports will be the major tool for ensuring the country's economic survival and sustainable economic development. Exports will help address the problems of unemployment, lack of foreign exchange, urban concentration of industries, and inappropriate technology.

At the same time, as signatory to the Agreement establishing the World Trade Organization and to the ASEAN Free Trade Agreement, the Philippines is bound to honour its commitments to further open up its market to foreign goods. This is to be accomplished through the reduction of tariffs on imports and the tariffication of quantitative restrictions. With the world economic order moving towards freer trade among nations, the Philippine export sector faces tremendous pressure to measure up to its foreign counterparts.

With the many constraints still faced by exporters on increasing their competitiveness in the world market, the political will of the Government will be a critical factor in enabling the country's manufacturers to survive and excel.

EXPORT SECTOR DEVELOPMENT IN SAMOA

Losefa Afele Maiava[*]

INTRODUCTION

Samoa, with a population of about 162,000 and a GDP per capita of $670, is classified as a "least developed country" (LDC) by the United Nations. After years of poor economic performance, the economy finally began to recover in 1989, when GDP growth reached 2 per cent. This growth was the result of two major developments: reforms which the Government introduced in 1983, when the economy was on the verge of collapse; and an upturn in export commodity prices.

Unfortunately, this success was very short-lived for in February 1990 Cyclone Ofa struck, to be followed by Cyclone Val in December 1991 and a nation-wide taro blight in September 1993. The cumulative result of these natural disasters has been a major decline in GDP by more than 4 per cent per year since 1990.

Agriculture, of course, remains the mainstay of the economy, accounting for 40 per cent of GDP; the major cash or export crops are coconut, taro (until 1993 when it was devastated by the taro blight), and cocoa. Manufacturing, the other important productive sector, although growing, is still relatively small, accounting for about 11 per cent of GDP; the major export items in recent years have included beer, cigarettes, and automotive wiring harnesses.

Samoa is also considered to have a typical MIRAB economy. MIRAB is the acronym for Migration, Remittances, Aid, and Bureaucracy, and has been used to describe the many small island economies of the Pacific which rely heavily on migration opportunities, remittances, aid and the (externally-supported) public sector. In fact, Samoa is heavily dependent on aid (including loans with a grant element) and on private remittances. Indeed, without such high levels of inflows from these sources, the balance of payments deficits would have been

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quite unmanageable.

In an effort to expand and diversify the economic base, the Government is actively encouraging the establishment of new industries, especially those which are export-oriented and labour-intensive. As a result of these efforts, the industrial sector's share of export earnings and employment has increased significantly over the last few years.

This paper focuses on recent experience in the export sector, and the Government's efforts to improve the country's export performance. Consequently, the discussion of overall production and of government economic policies and initiatives also focuses on those aspects which have a direct bearing on the export sector.[1]

It has also to be constantly borne in mind that from the outset export performance in recent years has been severely affected by the three major disasters since 1990, and that no discussion can take place without reference to such events.

I. IMPACT OF NATURAL DISASTERS

In 1990, cyclone Ofa struck the island group causing extensive damage to agriculture and economic and social infrastructure and resulting in a decline of real GDP in that year by over 7 per cent, while agricultural production was reduced by 22.3 per cent. By late 1991, increased agricultural production of quick-yielding crops and high construction activity were leading the way to recovery (World Bank, 1993). But less than two years after Ofa, cyclone Val, the most destructive cyclone to hit Samoa in 100 years, struck during 6-9 December 1991. The losses sustained by tree crops were estimated at 80 per cent for coconuts, 90 per cent for cocoa, and 100 per cent for bananas. Real GDP, which declined by only 1.6 per cent in 1991, reflecting partial recovery that year, is estimated to have fallen by 4.3 per cent in 1992, with the external deficit widening to about 28 per cent of GDP (World Bank, 1993).

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[1] For a recent comprehensive description and analysis of these larger issues, the reader is referred to either the Government's *Western Samoa Seventh Development Plan 1992 - 1994*, or to the World Bank's report of March 1993 entitled *Western Samoa: Country Economic Memorandum*. This paper, in fact, draws heavily on those two documents.

Before the 1990 cyclone, the current account deficit (before grants) had been reduced to 1.6 per cent of GDP reflecting reasonably good export performance, as well as strong tourist receipts and private remittances. Since the cyclones, however, the balance of payments has been increasingly characterized by widening trade and current account deficits (see table 1), reflecting the country's exposure to uncertainties ranging from falling world commodity prices (see table 1) to cyclones and other domestic production disasters such as the recent taro blight. In terms of the overall balance, the surpluses of 1989 (WS$ 26.5 million) and 1990 (WS$ 35 million) have now been replaced by deficits of the last three years: WS$ 4.8 million in 1991, WS$ 20.3 million in 1992, and WS$ 20.7 million in 1993 (World Bank, 1993).

By 1993, the export sector had recovered sufficiently to register an increase in earnings to WS$ 16.9 million, from WS$ 14.2 million the year before. Taro was particularly successful bringing in WS$ 9.5 million, or 53 per cent of total export earnings. Unfortunately, in August 1993, the taro blight struck, wiping out most taro plantations in the country, so that by December the same year, only WS$ 78,000 worth of taro was able to be exported (Central Bank, 1994). It is now doubtful if taro will ever be exported again.

Natural disasters such as these have a double impact on the balance of trade. While they reduce export earnings, they also increase imports, as more food and relief supplies are brought in to supplement remaining food crops. In fact, economic activity in 1990-1992 has been dominated by rehabilitation measures, resulting in much higher public expenditure and imports than otherwise would have been the case.

In a way, the dramatic increase in imports brought about by post-cyclones rehabilitation and reconstruction have been necessary in order to restore infrastructure and the production base to levels sufficient to support recovery programmes. The immediate task after the cyclones was to rehabilitate power supply, water supply, telecommunication and roads to support the productive sector. Failure to do so would have resulted in a much longer recovery period for the economy.

Table 1: Balance of payments, 1982 - 1992

(Thousands of dollars)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Merchandise exports (f.o.b.)	13.5	17.8	18.6	16.1	10.5	11.8	15.1	12.9	8.9	6.5	5.7
Merchandise imports (c.i.f.)	-49.9	-48.8	-50.7	-51.2	-47.1	-61.3	-74.6	-75.5	-80.6	-93.8	-111.6
Trade balance	-36.4	-31.0	-32.1	-35.1	-36.6	-49.6	-59.5	-62.6	-71.7	-87.3	-105.8
Non-factor services (net)	1.6	1.1	0.9	3.9	3.8	6.4	15.8	20.7	21.3	13.2	21.1
- Travel receipts	-	4.7	4.7	6.6	8.5	9.5	15.9	20.1	20.6	15.8	16.4
- Export processing	-	-	-	-	-	-	-	-	-	0.1	2.6
- Other receipts	-	4.4	4.0	33.8	4.8	7.0	9.7	11.5	15.1	15.6	22.2
- Payments	-	-8.1	-7.8	-6.5	-9.6	-10.0	-9.8	-10.9	-14.4	-18.3	-20.1
Resource balance	-34.8	-29.9	-31.3	-31.3	-32.8	-43.2	-43.7	-41.9	-50.4	-74.1	-84.7
Factor services (net)	-1.4	-1.2	-1.6	-1.7	-1.0	1.2	0.8	2.1	5.2	4.1	3.2
- Receipts	-	0.1	0.3	0.7	1.2	33.4	2.9	4.5	6.7	6.5	5.4
- Public interest payments	-1.1	-1.0	-1.4	-1.7	-1.4	-1.3	-1.3	-1.1	-1.2	-1.2	-1.4
- IMF charges	-0.3	-0.3	-0.5	-0.6	-0.7	-0.6	-0.4	-0.3	-0.2	-0.1	-0.1
- Other payments	-	-	-0.1	-0.1	-0.1	-0.3	-0.4	-1.0	-0.1	-1.1	-0.7
Private transfers (net)	18.7	20.4	20.5	23.6	28.4	36.4	35.5	38.2	39.8	31.0	39.3
Current account balance	-17.8	-10.7	-12.4	-9.	-5.4	-5.5	-7.4	-1.6	-5.4	-39.0	-42.3
Official transfers (net)	14.3	17.0	13.4	11.4	15.3	16.9	17.0	16.8	18.1	10.4	13.1
- External grants	14.3	17.7	13.8	11.8	16.1	17.7	17.7	17.6	19.2	11.7	14.4
- Other (net)	-	-0.7	-0.4	-0.4	-0.8	-0.8	-0.7	-0.8	-1.1	-1.3	-1.3
Public loan disbursements (net)	5.2	1.9	7.0	-1.5	-1.5	.0	1.0	2.7	12.1	20.7	8.2
- Gross disbursements	7.0	4.7	10.2	2.5	2.8	6.0	4.2	6.0	15.4	23.6	11.6
- Principal payments	-1.7	-2.8	-3.2	-4.0	-4.3	-3.0	-3.2	-3.3	-3.3	-2.9	-3.4
Other (net	-0.8	-5.2	-6.6	1.6	3.1	0.3	2.4	-6.1	-9.5	-5.9	13.6
Use of net foreign assets	-1.1	-3.0	-1.4	-2.2	-11.3	-14.1	-12.9	-11.7	-15.3	2.0	7.3
Net foreign assets (end of period)	-3.9	-0.9	0.5	2.5	14.1	26.2	41.2	52.6	68.1	66.1	68.8

Source: Reproduced from World Bank (1993), table 3.1.

II. EXPORT PERFORMANCE

Samoa's export performance over the last 10 years has been disappointing, especially when measured against imports. As may be seen from table 1, the trade deficit tripled from $35.1 million (approximately WS$ 77 million) in 1985 to as much as $105.8 million (approximately WS$ 258 million) in 1992. Much of this increase was due to the two major cyclones in 1990 and 1991, but the trade deficit has been on a steadily rising trend since 1983, and even before 1990 it had doubled the 1983 figure.

To put it simply, the immediate causes of the widening trade deficit have been the escalating import bill (which increased by 123 per cent from 1982 to 1992), on the one hand, and declining export earnings (a fall of 58 per cent over the same period), on the other. The impact of cyclones on both exports and imports is quite clear, although, again, long-term trends indicate other weaknesses in the country's productive system. Such weaknesses are evident in the two traditional productive sectors - agriculture and the manufactures - discussed in some detail below.

Agriculture

As noted above, agriculture remains a leading sector of the economy, accounting for about 40 per cent of GDP (see table 3), 85 per cent of goods exports, and 60 per cent of employment in 1989 - before cyclone Ofa. The main subsectors are coconut, taro (until 1993), fisheries, bananas, cocoa, livestock, and forestry.

The sector has suffered declines in recent years mainly owing to:

- dramatic falls in world prices for its major exports, such as copra and cocoa (see table 2);
- dependence on only a few export crops (see table 4);
- a high level of real wages relative to productivity in the rural sector, which is sustained by high wage rates in the formal sector, large inflows of remittances and a high level of foreign aid;

- the devastating effects of cyclones and other natural disasters such as the taro blight.

Table 2: Trends in world prices of cocoa, copra, and bananas[a]

(Dollars per ton at constant 1985 prices)

Commodity	1950s	1960s	1970s	1980s
Copra	729	624	593	365
Coconut oil	11 087	997	925	552
Cocoa	310	186	327	183
Bananas	654	486	355	364

Source: Government of Western Samoa, *Western Samoa Seventh Development Plan 1992-1994*, Apia, 1992 (table 4.1).

[a] Annual averages.

These factors, combined with rather low yields, have meant that there has been little incentive to produce. Production of most cash crops was in decline even before cyclone Ofa. Thus, from 1986 (when the index of agricultural production peaked) to 1989, commercial production of copra declined by 18 per cent, cocoa 14 per cent, bananas 56 per cent, fish 24 per cent, and passion fruit 10 per cent.

Commercial production of timber fell by about 10 per cent in value during the same period, with a further 20 per cent decline after cyclone Ofa (Government of Western Samoa, 1992).

Other inhibiting factors are the traditional land tenure system which restricts use of land, emigration of labour to the Pacific rim countries, and Samoa's smallness and remoteness, which translate into prohibitive transportation charges, and, hence, uncompetitive production costs.

With the prospect of continued declines in world prices and rising wage levels in the formal sectors, there seems to be little hope for traditional crops. However, there may be some scope for exploiting the upper ends of the market - i.e., coconut cream and syrup or fine-and

Table 3: GDP by sector, 1982 -1992

(Thousands of dollars)

Sector	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
	Current prices										
Subsistence	37.3	43.7	47.4	51.6	57.9	58.7	62.5	66.2	75.3	68.7	71.9
Agriculture, forestry & fishing	26.6	32.7	39.8	42.9	43.5	44.2	43.8	533.3	40.5	42.1	38.7
Manufacturing	13.9	21.3	29.0	32.0	28.9	31.1	36.5	32	31.9	29.4	29.8
Electricity	4.3	5.9	8.7	8.6	8.0	9.0	11.0	11.4	12.3	15.4	16.0
Construction	1.6	3.9	2.0	2.9	4.1	7.0	9.8	5.7	7.1	7.4	10.1
Distribution, rest. & hotels	9.4	11.4	13.2	15.7	18.8	20.2	22.4	25.6	30.3	30.7	28.8
Transportation	4.7	5.4	6.6	7.0	5.1	5.6	5.1	5.2	6.7	8.3	10.5
Other services	10.9	13.0	14.8	16.5	17.5	18.7	20.8	22.3	26.3	26.5	29.4
Government	15.2	16.3	17.5	19.4	24.5	24.9	28.4	331.4	336.5	37.7	41.9
GDP at factor cost	123.9	153.6	179.0	196.6	206.3	219.4	240.3	253.4	266.9	266.2	277.1
Net indirect taxes	24.6	30.7	37.2	45.8	44.7	54.2	55.5	61.2	69.8	81.5	88.7
GDP at market prices	148.7	184.3	216.2	242.4	253.0	273.6	295.8	314.6	336.7	347.7	365.8
	1982 prices										
Subsistence	37.3	37.9	37.9	37.6	39.6	39.0	38.0	40.3	37.8	34.6	32.4
Agriculture, forestry & fishing	26.6	27.5	26.9	25.8	29.5	27.7	25.1	28.2	20.3	21.2	17.4
Manufacturing	13.9	15.8	15.4	18.2	18.8	19.1	19.4	17.8	16.2	13.6	12.5
Electricity	4.3	4.4	4.6	4.9	5.2	5.5	5.9	6.2	5.8	6.5	6.5
Construction	1.6	4.1	2.0	2.9	3.8	5.9	7.4	4.2	4.8	4.6	5.7
Distribution, rest. & hotels	9.4	9.8	10.2	11.0	12.5	12.9	13.1	14.2	14.6	15.0	13.0
Transportation	4.7	4.8	5.4	5.4	4.9	5.4	5.6	5.7	5.9	6.8	7.5
Other services	10.9	11.1	11.2	11.5	11.7	12.0	12.1	12.5	12.8	13.1	13.5
Government	15.2	16.3	15.9	16.8	14.9	15.1	15.8	16.2	16.4	17.1	18.1
GDP at factor cost	123.9	131.7	129.5	134.1	140.9	142.6	142.4	145.3	134.5	132.4	126.7
Net indirect taxes	24.6	26.3	26.9	31.2	30.2	35.2	32.9	35.1	35.2	40.5	40.6
GDP at market prices	146.7	158.0	156.4	165.3	171.1	177.8	175.3	180.4	169.7	173.0	167.3
Real GDP growth (per cent)		6.3	-1.7	3.6	5.1	11.2	0.1	2.0	-7.4	-1.6	-4.3
GDP deflator (1982 = 100)	100.0	116.6	138.2	146.6	147.8	153.9	168.8	174.4	198.4	201.0	218.7

Source: Reproduced from World Bank (1993).

Table 4: Exports by value, 1988 - 1993

(Thousands of tala)

Item	1988	1989	1990	1991	1992	1993
Major industrial exports						
Coconut oil	10 872	7 147	4 024	24	679	-
Copra meal	857	774	296	-	8	-
Coconut cream	3 875	4 865	5 420	4 338	4 404	3 464
Canned corned meat	-	-	328	271	304	426
Timber	1 082	92	22	10	22	-
Cigarettes	682	695	684	671	856	786
Beer	640	726	853	687	1 695	1 308
Other domestic exports						
Cocoa	710	1 293	502	6	-	-
Copra	2 012	2 886	1 101	-	-	-
Taro	6 615	8 398	3 502	6 878	4 696	9 509
Bananas	-	-	-	-	-	103
Fruit juice	53	75	18	-	-	-
Automotive wiring harnesses	-	-	-	2 809	-	-
Others	2 509	2 336	2 727	1 248	1 414	1 299
Total domestic exports	29 907	29 287	19 477	16 942	14 096	16 895
Reexports	1 658	1 309	1 057	537	27	11
Total exports	31 565	30 596	20 538	17 479	14 123	16 906

Source: Department of Trade, Commerce and Industry and the Central Bank of Western Samoa.

flavour cocoa, which can realize higher prices in specialist markets. There may also be some scope for high value horticultural products (World Bank, 1993).

As a matter of fact, some restructuring has been going on in response to changes in relative market prices, and is already reflected in export earnings. For instance, the traditionally dominant export commodities -

copra, coconut oil and cocoa - accounted for 73 per cent of total exports in 1980, 47 per cent in 1989, and only 30 per cent in 1990. In contrast, canned coconut cream and taro exports grew strongly throughout the 1980s and together comfortably exceeded the value of copra and cocoa exports in 1990; and cocoa production increasingly takes the form of koko samoa (roasted and pounded cocoa beans which the Samoans use for making cocoa drinks, puddings, etc.) for the local market and expatriate Samoan communities (Government of Western Samoa, 1992).

Livestock is not a major export but makes a significant contribution to the balance of trade by keeping down meat imports, which, after doubling from 1983 to 1985, have stabilized a level of about 6,500 tons per year (Government of Western Samoa, 1983).

What seems to be the key in realizing the potential in restructuring agricultural production is the creation and maintenance of an enabling framework for the private sector to produce while enforcing environmental safeguards. In addition, there is a need for adequate support - infrastructure, training, extension services, marketing, and credit facilities (World Bank, 1993). As discussed below, the Government is already embarking on a course of action which should provide the necessary framework for better performance in the agricultural sector.

Manufacturing

Manufacturing, while still small (constituting 11 per cent of GDP) and erratic, has had an overall positive growth trend over the years, increasing its value of output from $13.9 million in 1982 to $32.3 million in 1989, an increase of 132 per cent and its share of GDP from 11.2 per cent to 12.7 per cent. Over the same period, the share of the agricultural sector (including subsistence) declined from 52.5 per cent to 47.12 per cent. Major manufacturing items include beer, cigarettes, coconut cream, and more recently automotive wiring harnesses (Government of Western Samoa, 1992).

Earlier hopes of sustained expansion of resource-based manufacturing have not been fulfilled and several such plants have been closed down in recent years, including a honey-packing plant and a veneer mill. A coconut wood plant has been privatized but is no longer in production, and the coconut oil mill, which was closed down after the recent cyclones, has been leased to a private group. The main problems with these operations have been the poor supply of raw materials (partly due to natural disasters), poor management, and low market prices.

The example of coconut cream, however, indicates that there is some scope for manufacturing some high value items from local products. Indeed, manufacturing and niche industries do have some potential for creating new employment and output. Already, food processing and assembly types of light manufacturing are the two largest sources of employment in the economy.

Some manufacturing firms have already been established in the country, based on its comparative advantage of relatively low wage rates (WS$ 1.25 at entry level), proximity to the South Pacific market, and preferential tariff treatment. A notable example is the factory set up recently by an Australian subsidiary of the Yasaki group to assemble automotive wire harnesses for the Australian and New Zealand car manufacturing markets. Two other plants were also in place by 1991 for making ladies' underwear.

Niche-type activities, however, are by their very nature, unpredictable. The success of such ventures also depends on global trading agreements, such as GATT, which will go against the interest of small island nations by gradually reducing tariff and non-tariff barriers and thereby generating more competition and a reduction in the value of preferential margins. Technological changes in production processes may also impact on the viability of assembly type industries. Thus, reliance on such industries as long-term sources of employment and revenues has to be approached with caution (World Bank, 1993).

Diversification of merchandise exports has been gradually picking up momentum, with automotive wire harness and coconut cream boosting exports and a fledgling garment industry in the development process. But overall, the export base in the manufacturing sector remains narrow and therefore vulnerable to external shocks.

III. GOVERMENT INITIATIVES

The main government agency for the promotion of the export sector is the Department of Trade, Commerce and Industry (DTCI) which was reconstituted under the Trade, Commerce and Industry Act of 1990. Under the Act, the principal functions of DTCI include the following:

- Advise the Minister on all matters affecting the development of Samoa's trading relationship with other countries;
- Negotiate trade agreements on behalf of the Minister;
- Encourage and assist the promotion of Samoa's produce and products, either in its own right or in cooperation with any organization involved in exporting, including exhibiting at trade fairs;
- Establish a Commodities Pricing and Marketing Information Unit within the Department;
- Facilitate the obtaining of funds for the purpose of trade development and promotion, including discussion and negotiation with aid donors;
- Advise the Minister on all aspects affecting the growth and development of the country's industry, commerce and trade;
- Advise the Cabinet, through the Minister, on the criteria for the development of industry and commerce to be applied in evaluating approvals under any incentives legislation for the time being in force;
- Administer the Commerce Act of 1978;
- Promote the development of small businesses, including setting up a small business agency within the Department to disseminate knowledge of sound business and commercial practice to Samoans and organize and administer as necessary courses and training;
- Undertake research into any aspect of domestic trade, commerce and industry, including the conducting of surveys, gathering statistics and publishing reports from time to time;
- Evaluate reports or project documents on investment

proposals suitable for funding by the Government and/or aid donors;

- Facilitate the obtaining of funds for the purpose of developing the commercial sector, including discussions with aid donors;

- Liaise with the Western Samoa Visitors' Bureau for the development of tourism, including development of facilities for the entertainment of visitors.

Private sector support

"Of late, our country has been moving rapidly in the direction of a belief in a freer economy and a greater role in it for the private sector. A variety of policy measures taken in recent years reflect this change. They range from a liberalization of import and exchange controls and structural changes in the tax system to a privatization of government-owned enterprises" (Government of Western Samoa, 1992, p.iii).

As a matter of fact, a major governmental concern in recent years has been the slow growth of the private sector, particularly when compared with the public sector.[2] The concern rightly is that the private sector, given its prominence in production, should be the leading growth sector if the Government is to achieve its goal of sustainable economic development. As it is, most of what is produced and exported at the moment is by the private sector. In 1990, for example, it accounted for 67.4 per cent (or WS$ 179.8 million) of GDP, which was almost twice the contribution of the public sector. It also provided 12,592 jobs at the end of 1991, compared with 4,352 in the public sector (Department of Labour 1994, and Department of Statistics, 1992).

Major policies for the private sector include:

- Promotion of the sector through fiscal incentives, channelling of foreign aid, establishment of a one-stop-shop for processing investor applications and privatization of government-owned enterprises;

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[2] The private sector's contribution to real GDP grew less than 1 per cent per year from 1982 to 1990, while that of the public sector grew by 7.1 per cent (World Bank, 1993, citing IMF sources).

- Aggressive promotion of industrial sector growth;
- Implementation of a variety of policies aimed at increasing agricultural and fisheries production (Government of Western Samoa, 1992).

Important steps have already been taken in pursuit of these policies:

- A number of public corporations have been privatized and efforts in this direction are continuing;
- Much of former WSTEC lands have been leased out to individuals for development;
- Price stabilization schemes (cocoa and copra) have been abolished as their administration had become burdensome and, by distorting market conditions they had in fact hindered to efforts to restructure production;
- The Enterprises Incentives and Export Promotion Act (EIEPA) of 1992-1993, which is now in force, consolidates the previous Enterprise Incentives Act and the Industrial Zone Act into one, and incorporates important measures to facilitate foreign investment and trade.

Diversification

One of the most significant features underscored by the recent series of natural disasters is the country's vulnerability to external shocks. Recognizing this vulnerability, and the current reliance on a few crops and manufactured goods, the Government recently stepped up measures to promote agricultural diversification, light manufacturing, foreign investment and tourism. In agriculture, its strategy is two-fold: move away from relying solely on a few traditional agricultural products as the major source of foreign exchange earnings and consequently explore other potential niche agricultural products.

Despite its slow growth, manufacturing has also become a major focus of attention by the Government, and is seen as an important avenue for growth, either in conjunction with agriculture (i.e., coconut cream, banana chips, and fruit juice) or on its own. The Government is now encouraging low-wage processing industries to locate in Samoa, the most notable so far being the Yasaki factory.

Improving access to land

As noted above, one of the constraints to production is the restrictions put on land use by the tenure system. With 82 per cent of land under customary ownership, this means that most of the land is not readily available for development purposes. Potential investors are sometimes discouraged by protracted negotiations for lease, unresolved land disputes, and often unrealistic demands for increased rents by indigenous land owners. The Government has taken two important steps to try and make more land available for development:

- It has taken steps to accelerate the leasing of former WSTEC lands currently held by the Samoa Lands Corporation; and

- It has formalized the process of reviewing the Customary Land Act, not with a view to changing the land tenure system, but to seeking amendments which may facilitate better utilization of land. In this regard, it is worthy of note that the Trade, Commerce and Industry (TCI) Act of 1990 has been amended to give the Trade Minister the powers to negotiate leasing of communal land to the Government, which then subleases to foreign investors.

Trade policy

The trade regime in Samoa is relatively free of restrictions and is not seen as an impediment to the promotion of investment and trade. The tariff schedule is fairly prohibitive for some items, but for those imports intended for export operations, there are significant tax/tariff reliefs under the EIEPA.

Promotional policies

In trying to attract foreign investment, the Government often promotes Samoa as a country which provides a relatively stable political environment and low wage rates, a labour force with an aptitude for learning, and a Government that is highly supportive of foreign investment. This has been backed up by important institutional and policy initiatives such as the reconstitution of DTCI to focus on trade and the enactment of the EIEPA to offer appropriate incentives.

Another important institutional initiative had been the setting up of the Trade and Marketing Division within DTCI. One of the problems faced by the private sector is the lack of overseas contacts and information on export markets. The Trade and Marketing Division is designed to help these industries build up overseas contacts and export markets and to help locate buyers. Important activities of the Division in recent years have included:

- Production of a "Trade and Industry Directory" to facilitate contacts between overseas investors and local businesses;
- Publication of the "Trade and Investment News Bulletin" to improve information flow;
- Initiating an "Exporter of the Year" award; and
- An Export Validation Mission on the Los Angeles market.

The Department has also recently undertaken several overseas missions to promote Samoa in the areas of trade, foreign investment and tourism. To encourage private sector participation, these missions have included private sector representatives under a cost-sharing scheme with the Government.

The Government has also secured the assistance of the following international agencies in carrying out its investments and trade promotion objectives: South Pacific Trade Commission in Sydney, Forum Secretariat in Fiji, South Pacific Trade Office in Auckland, and Marketing Advisory Services (under the Australian Department of Trade) in Sydney.

Trade agreements

SPARTECA

Given the destinations of the country's exports (see table 5), the most important trade agreement to which Samoa is party is the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), which is a non-reciprocal Trade Agreement between the Forum Island Countries (FICs), on the one hand, and New Zealand and Australia, on the other. The Agreement allows FICs to enjoy preferential tariff treatment for most of their products exported to New Zealand and Australia.

Despite the privileges under SPARTECA, exports have remained limited (in scope and volume) over the years, with only one notable entry - automotive wiring harnesses - in the last three years. The main constraints have included: (i) inability to confirm with applicable "Rules of origin content"; (ii) quarantine and health regulations; (iii) customs invoicing procedures; (iv) inconsistency in supply capabilities of local industries.

According to DTCI, constraints on exports of manufactured goods under SPARTECA relate to internal production inefficiencies. The problem is that the established manufacturing operations were set up originally as import-substitution activities and became export-oriented only after the domestic market was saturated. But the overseas markets were much more demanding than the domestic ones, so that major adjustments needed to be made before such operations could enter and compete in the export business.

Generalized system of preference (GSP)

Samoa benefits from GSP schemes of OECD countries and countries in transition. By and large, it has not been able to take advantage of these schemes, because of the internal production difficulties discussed above.

Lomé Convention

Samoa exports on preferential terms under Lomé VI have consisted

Table 5: Exports by major destination, 1982 - 1992

(Percentage of total exports)

Destination	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992[a]
Pacific	54.2	47.4	46.5	57.1	66.5	71.7	63.4	62.6	75.8	92.9	89.3
New Zealand	27.1	25.4	21.6	28.7	30.3	37.0	27.5	34.5	33.5	48.1	53.6
Australia	9.8	12.7	14.1	17.5	21.3	19.5	16.5	8.7	11.3	23.0	13.8
American Samoa	-	5.3	6.6	6.0	8.0	9.3	7.1	9.5	21.3	133.8	12.8
Other	17.3	4.0	4.0	3.9	6.9	5.9	12.3	8.8	9.7	7.0	9.1
North America	26.6	31.3	38.1	31.5	9.3	13.3	4.7	9.0	5.8	7.1	10.7
Europe	6.9	12.3	14.9	9.9	24.2	14.9	20.8	27.9	18.2	-	-
Germany	5.8	10.2	3.3	8.3	21.3	14.9	29.5	23.2	18.2	-	-
United Kingdom	0.1	1.9	6.9	-	0.5	-	-	1.1	-	-	-
Netherlands	1.0		4.7	1.6	2.0	-	0.3	3.6	-	-	-
Other	-	0.2	-	0.0	0.4	-	-	-	-	-	-
Asia	10.3	9.0	0.5	1.5	-	0.1	2.1	0.5	0.2	-	-
Japan	7.9	3.36	0.5	1.5	-	0.1	0.4	0.4	0.2	-	-
Other	2.4	5.4	-	-	-	-	1.7	0.1	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0[b]	100.0[b]

Source: Reproduced from World Bank (1993), (table 3.4).

[a] Provisional
[b] Pacific and North America only

mainly of coconut oil and copra meal, but production has not been able to sustain exports over the last couple of years. Here, too, the potential benefits could not be fully exploited because of internal production difficulties.

IV. CONCLUSIONS

Perhaps, given the recent series of natural disasters, the first conclusion should be that the Samoa is extremely vulnerable to external shocks and consequently needs to diversify its economy into areas of high-value exports and of reasonable insulation from such shocks. But even having regard to the effect of cyclones, the fact is that Samoa has not done too well in the export sector, particularly with its traditional export crops of coconut and cocoa. The main factor responsible has been the long-term decline in world prices for such commodities, which in Samoan conditions, is disincentive enough, given the relatively high wages in the formal sector and the high inflow of private remittances and aid.

As a response to changes in relative prices and against the background of the inherent vulnerabilities of a monoculture, there has been a gradual diversification of the production and export base in recent years. In the process, potential for growth has been demonstrated in new crops (such as kava, fruit trees and taro before the blight), upper-end processing of some traditional crops (coconut cream), and light manufacturing (automotive wiring and garments).

The private sector is expected to lead the way in this diversification and restructuring process, and ultimately to higher productivity and export incomes. For its part, the Government has already taken some welcome initiatives to facilitate private sector production and export activities. It was seen above that there is potential in certain niche areas, and that export opportunities available through existing trade agreements could be of greater significance in the future. On the other hand, there may be a need to guard against being too dependent on niche operations and preferential market access, the future of which is uncertain in the light of recent multilateral trade negotiations.

Overall, there is cause for some optimism, in view of the changes, albeit gradual, that are occurring in the structure of and framework for production. On the other hand, it cannot be said the corner has been turned for the better, since the economy is still on a downward spiral and it may be years before trade deficits are narrowed.

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POLICY STRATEGIES FOR EXPORT SECTOR DEVELOPMENT AND MARKETING: PAST EXPERIENCE AND CURRENT PROSPECTS

Manikan Sundaralingam[*]

I. ECONOMIC BACKGROUND AND CONTEXT

When it became independent in 1948, Sri Lanka's economy was in a relatively healthy state. The balance of payments was in surplus; external reserves were substantial enough to finance about one year's imports; and the Government's budget and public expenditure were managed within the revenue available. However, this relatively "healthy" condition masked certain structural deficiencies which became accentuated in the 1950s and 1960s.

In 1948, Sri Lanka was in the mould of a classical colonial economy. First place was given to plantation agriculture, which consisted of a tripod of tea, rubber and coconuts. These three plantation crops accounted for about 95 per cent of the country's export earnings. There was no industry worth talking about, and subsistence agriculture was also not given much importance. Consequently, food products comprised about 50 per cent of total imports. The economy was heavily dependent on the vagaries of the international economy, and imports and exports of goods and services amounted to about 70 per cent of GDP.

For the purposes of this brief historical overview, two broad phases since independence can be distinguished: from 1948 to 1977 and from 1978 onwards. The structural imbalances referred to above were accentuated in the late 1950s and the 1960s. The boom in commodity prices of the early 1950s had petered out, and trends in international commodity markets indicated a secular decline in the terms of trade. An attempt was made to increase productivity in the plantation sector, as well as to diversify. Import substitution policies were adopted both in agriculture and in industry. In agriculture, the emphasis was on increasing production and achieving self-sufficiency in rice. In industry, several public enterprises were set up which were to undertake some industrial ventures, based on the availability of local raw materials. In the early 1960s private industry was promoted with a system of licensing, high tariffs and exchange control.

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The structural weaknesses of an unstable export-import economy were aggravated in the 1970s. Policies in both agriculture and industry were geared to the domestic market. The protection accorded to the domestic sector was to the detriment of exports and the general capacity of the economy to compete in international markets. The export sector remained undiversified and heavily dependent on the three main export products, as at the time of independence.

In the second phase a fundamental change of policy was undertaken. A far-reaching programme of economic reforms was introduced. There was a movement away from a command economy to one based on market forces. The reforms of 1977 unified the dual exchange rate system, with a significant measure of devaluation. Exchange controls and import controls were liberalized to some extent, a new tariff structure introduced and subsidies gradually reduced. Foreign investment was encouraged and the improvement in the investment climate was conducive to an increased inflow of investments.

It was in 1989, when the second phase of economic liberalization was implemented, that the private sector was given the lead role and explicit priority was given to export-led industrialization. The private sector was regarded as the "engine of growth" and a target set of doubling per capita income, or achieving NIE status, by the year 2000.

Sri Lanka's trade has undergone significant changes in both commodity and geographical structure. In the years immediately after independence exports were basically the plantation crops of tea, rubber and coconuts, and a wide range of manufactured products was imported. The main trading partners were the United Kingdom and other countries of the Commonwealth. A system of Commonwealth preferences was in operation during this period.

By 1970, the structure of exports had undergone very little change, with the three plantation crops still accounting for approximately 90 per cent of exports. Many changes had taken place in imports.

Imports in relation to GDP declined, reflecting the success of import substitution policies in rice and subsidiary food items. Changes were also taking place in the country's trading partners and markets. The United States, Japan, Western Europe, the former socialist countries of Eastern Europe, and China had become important trading partners.

The share of agricultural commodities in total exports had declined to 61 per cent by the end of the 1970s and that of industrial exports had risen to 33 per cent. Most of the industrial exports were garments and naptha, a byproduct of petroleum refining. Other sectors performing well were ceramic and porcelain ware, precious and semi-precious stones, and fish products. The West Asian countries became important trading partners for both imports and exports. The increase in the price of oil had substantially enhanced the value of imports from this region, while exports of tea to Egypt, Iraq, the Islamic Republic of Iran, Saudi Arabia and the Syrian Arab Republic began to assume greater prominence.

After 1977 the trend towards greater exports of manufactures was strengthened, and the share of agricultural commodities in total exports declined further. (From 95 per cent in 1970, they fell to 62 per cent in 1980 and 36 per cent in 1990. The shares for industrial products were respectively 2 per cent, 3 per cent and 52 per cent). Exports of garments continued to grow remarkably and exports such as leather, rubber products, wood and ceramics continued to grow. Diamond cutting and jewellery exports recorded high growth rates. In the agricultural sector, new non-traditional exports were also expanding - cashew nuts, cut flowers and foliage plants, fruits and vegetables.

With the growing importance of industrial exports, particularly garments, there was a diversification of trading partners. Garments which became the largest export item in 1986, maintained their lead and increased their share further, from 32 per cent in 1990 to 39 per cent in 1991 and 48 per cent in 1992. Around 60 per cent of garments exports were to the United States and some 30 per cent to the European Union. The United States and Western Europe have thus become the chief markets for Sri Lankan products. In addition to garments, which form three-fourths of exports to the United States, there are exports of footwear, activated carbon, mineral products, gems, marine products, tea and rubber. The European Union constitutes the second largest export market for Sri Lanka. Germany is the second largest country market followed by the United Kingdom; their major imports from Sri Lanka are garments, followed by tea. Rubber is also an important export to the European Union. Japan is the fourth largest importer from Sri Lanka, principally of gems, marine products, tea, rubber and mineral products. Among the developing countries, the share of West Asian countries is significant. The West Asian countries are now the largest market for Sri Lanka's tea, accounting for 61 per cent of its total tea exports in 1990, as against 24 per cent in 1970, and 51 per cent in 1980. The main buyers of tea in the West Asian countries are the Islamic Republic of Iran, Egypt, Iraq, Jordan, Saudi Arabia, and the Syrian Arab Republic.

It is significant that the five leading suppliers of Sri Lanka's imports are all in the Asian region, i.e. Japan, India, Republic of Korea, Hong Kong and Taiwan Province of China. Japan is the source of items such as machinery, chemicals, vehicles, electronics, transport equipment and fertiliser; India of foodstuffs, such as dried fish, chillies, potatoes, onions and eggs; and more recently buses, trucks, three-wheelers, pharmaceuticals, and textiles for the garment industry. The Republic of Korea supplies textiles, yarn and electronics, and Hong Kong mainly textiles.

China has also been an important supplier, and more recently Malaysia and Thailand have become significant import sources.

II. STRATEGIES FOR EXPORT EXPANSION: AN EVALUATION

Policy framework

Since the Second World War, there has been a debate among policymakers in developing countries on how to deal with trade, since trade policy greatly influences industrial performance and economic development. The two basic options for trade strategy are outward-oriented and inward-oriented. In principle, the distinction between the two is straightforward, and depends on whether the system of incentives or effective protection favours sales in the domestic market over sales abroad.

In practice however, it is not easy to observe such a clear-out distinctions, particularly in the face of various distortions. Nevertheless, economists employ certain quantitative and qualitative indicators, such as the effective rate of protection, use of quotas and import licensing, use of export incentives, and the degree of exchange rate overvaluation, to divide countries into those which are outwardly oriented and those which are inwardly oriented.

In the early 1970s, the economy of Sri Lanka was one of the most distorted among the lower-income developing countries. It was characterized by a restrictive trade regime, pervasive price controls, state monopolies, and slowly adjusting exchange rates, which resulted in bottlenecks in production, slow economic and export growth, and chronic balance of payments difficulties. The trade strategy was strongly biased in favour of industrialization based on import substitution, as against an export promotion bias. There were widespread tariff and non-tariff barriers, large trade and fiscal deficits, rapid inflation, and acute shortages of foreign exchange. Sri Lanka was not an exception, since the current opinion at that time favoured import substitution policies.

A moderately outward-oriented trade policy was adopted in 1977, along with a liberalization of the economy, through, *inter alia*, the removal of most quantitative import restrictions, the unification of the dual exchange rate system (involving an important measure of devaluation) and a relaxation of exchange control.

For a small country like Sri Lanka, a compelling reason for export-led growth is the fact that the world market is much larger than the small domestic market. Catering to a larger market enables enterprises to undertake production on a larger scale, thereby achieving economies of scale, such as the lowering of the unit cost of production and improving on the ability to use resources that are required to enhance quality.

A country which follows an export-led growth strategy has to get its policies right, if it is to succeed. Exporters must be enabled compete on an equal footing in world markets. The policies should also ensure that exporters receive the same amount of assistance in creating value added as local import-competing firms get through the import tariff and other mechanisms, so as to avoid an anti-export bias.

To enable exporters to compete in foreign markets, and with local import-competing firms, in the allocation of resources on equal terms, a package of measures was thought necessary. The three determinants of export growth are the exchange rate, monetary policy and fiscal policy. A proper blend of these policy instruments is necessary to support export-led growth. Given the stance of fiscal and monetary policies, the exchange rate becomes the most important policy instrument. It should be determined by market conditions, and hence should be realistic. A realistic rate would ensure a reasonable return in rupee terms for exporters and producers for export. This should be allied to prudent macro-economic policies, which would ease the pressure to depreciate the currency for export promotion purposes. The second most important measure is to ensure free access to inputs that are required for export production. Measures such as the establishment of free-trade zones, duty exemptions, duty drawbacks, and duty rebates will need to be adopted, until such time as free trade ensures free access to inputs. The third most important measure is to enable exporters to obtain short-, medium- and long-term financing at competitive rates without undue insistence on collateral. There is a need to develop capital and money markets. The policies mentioned above would assist the export sector to compete internationally on equal terms. To avoid an anti-export bias, it is also necessary to reduce over the next few years tariff that provide protection to the import-competing sector.

In addition to the policies enumerated above, there are various constraints that are peculiar to specific export sub-sectors. There could be cumbersome procedures and documentation, high freight rates, lack of cargo space, etc. It is in this context that the relevance of a National Export Development plan was considered. Targets for investment and exports in such a Plan would largely be indicative, in an economy which depends on market forces.

The first National Export Development Plan (1983-1987) was a wide-ranging indicative plan, with a package of policies, incentives, and institutional arrangements. The broad directional plans were broken down into sectoral, subsectoral and product plans and targets. An important feature of the plan was the stress on high export growth. Although the plan was adopted by the Government, there were problems of implementation. The import trade and import substitution continued to have some preference, and bank credit was more easily available for imports, trade and construction, and other domestic activities, than for exports. Credit was one of the weakest links, and perhaps the main factor impeding export development. The exchange rate was unfavourable to exporters until late 1987. There were difficulties in importing raw materials in important sectors such as gems and jewellery, leather products, and wood and wood products.

Exports, however, expanded and grew, though not as much as desired. The emphasis of the plan was on the promotion and development of non-traditional exports. In addition to garments, the other non-traditionalexports emphasized were gems and jewellery, fishery products, light engineering goods, and services. With regard to other agricultural exports, apart from spices, priority was to be attached to new products, such as cut flowers and foliage fruits, vegetables and cashew nuts. However, experience and hindsight indicate that in the other agricultural export sector there was no organization for scientific/commercial production of any of the crops, nor were there any institutional arrangements for proper marketing, packaging, quality control, or increasing value. Exports of fruits, flowers, plants and vegetables, etc. came up against problems of air cargo space. Little progress was made in promoting Sri Lanka as an international centre for cutting and polishing stones. Recently, some progress has been made in diamond cutting and the export of calibrated stones. The services sector has not realized its full potential. The objective of Sri Lanka's becoming an international centre for conventions, conferences, etc. has not made much headway, probably due to unsettled conditions.

In planning the priorities and strategies for the Second Export Plan (1990-1994), a number of shortcomings hindering export growth were identified, among which were macro-economic measures which result in high inflation, eroding profit margins of exporters; problems of obtaining free access to imported inputs; problems of obtaining credit, both on short-term and on a more extended basis; the effect of tariffs, which diverted resources from exports to import-competing sectors; and export duties on traditional agricultural exports (tea, rubber, coconuts) which affected the profit margins of primary producers. In addition, there were disincentives and constraints faced by various export sectors, such as inadequate air cargo space and high maritime and air freight rates; weaknesses in marketing, management and manpower development; and cumbersome procedures, practices and documentation.

The priorities and strategies for the Second Export Plan are not very different from those of its predecessor. The basic objective is to expand the export base and diversify the export structure, including markets. The policy package therefore contains more or less the same mix of a realistic free access to inputs; export financing; reduction of the anti-export bias; and phasing out of export duties of traditional agricultural exports, which was completed in the 1994 Budget.

The Export Plan consists of sector-level plans. The broad sectoral priorities contained in a few important sectors were as follows:

- Increasing productivity and efficiency in the plantation crops and increasing added value in their exports;
- Continued expansion of the other agricultural crops sector. Special emphasis to be given to cut flowers and foliage plants, fruits and vegetables, cashew nuts, selected spices and spice oils, and the development of new products such as mushrooms, herbs and herbal teas;
- Rapid development of the mining and processing of minerals, with emphasis on processing before export;
- Rapid development of the gems and jewellery sector, with special emphasis on making Sri Lanka an international centre for cutting and polishing gems;
- Continued growth and diversification of the garment industry and its markets, with greater substitution of local raw materials through modernization and gearing of the textile industry and other services to meet the raw material requirements of the garment industry;
- The promotion and growth of services, including entrepôt trade.

The Second Export Plan also envisages efforts to strengthen and develop institutions for the promotion of markets and provision of market information. Incentives will be provided to the private sector to set up organizations in the major markets on the model of the Japanese foreign trading houses. Specific action envisaged includes the following:

- The Export Development Board, together with leading private sector trading and financing organizations, will explore possibilities of establishing export houses for selected products/markets;

- Assistance to be provided to small-scale producers in production and marketing;

- Assistance to be given to large organizations to establish their own marketing systems abroad.

In the interests of institution building and development of manpower, managerial and entrepreneurial skills, and technological innovation for enhancing productivity and international competitiveness, action will be taken, in conjunction with the private sector, the Universities, and relevant Ministries, to recruit and train high-level scientists, managers and entrepreneurs in priority areas and give them practical exposure and research experience in foreign countries. A number of research and development units and quality control facilities will be planned and initiated in critical areas. Close government cooperation with the business sector will be promoted in the areas of technology development, infrastructure, research, market studies and information, product development and design. Privatization of public sector enterprises engaged in production/manufacture to be vigorously pursued.

The first Export Plan called for substantial increases in exports to meet projected foreign exchange needs. Performance under this plan, and previous export performance, however, lagged behind the targets. The second Export Plan therefore settled for more modest growth rates, with emphasis on increasing the share of non-traditional products and adding more domestic value. Hence the main contribution to export growth is expected from textiles and garments, gems and jewellery, fisheries and other manufactures.

The implementation and monitoring of the first Export Plan was undertaken by eight different sectoral task forces that reported to a Central Planning Advisory Committee. However, implementation and monitoring was weak. The failure of the task force system was due to lack of authority to take decisions on resolution of issues/constraints. It neither pinpointed them nor adopted measures for their resolution. It did not work with exporters and urge them to achieve targets by overcoming the constraints.

A new system of monitoring was therefore suggested for the second Export Plan:

- Officers of the Export Development Board responsible for each product area will liaise with as many exporters as possible in the product area concerned, and monitor performance with regard to investments and exports;

- The Policy and Planning Division of the Export Development Board will liaise with the agencies concerned and take up macro issues, such as the exchange rate, financing of exports, fiscal policies, and direct assistance;

- Ministries, departments, agencies and institutions involved wish export development will designate responsible senior officers, with decision-making authority, to participate in the meetings set up for monitoring of the export plan.

1992 was declared the "Year of Exports" and subsequently 1992-2001 the "Decade of Exports". In the context of these declarations, exporters were offered several attractive incentive schemes in 1992. Exporters were allowed access to foreign currency loans. Small-scale companies were granted loans up to a maximum of SL Rs100,000 at concessional rates of interest. Loans up to SL Rs1 million were also granted at lower interest rates on a short-term basis. Similar loans were made available for research and development. In addition, exporters in the formative stages of developing new products or services had their research and development expenditure partially reimbursed. The incentive scheme for duty-free inputs for export processing, the duty rebate scheme, the manufacture-in-bond scheme, and the duty-free clearance of machinery scheme were revised and simplified during 1992, in order to provide better access to duty-free inputs for processing of exports.

The Board of Investment (BOI) incentives, normally granted to export processing zones, were extended to projects in agriculture, fisheries, handloom textiles, rural industries, handicraft, trading houses and computer software enterprises, where the investment involved was less than SL Rs10 million, on condition that each industrial project exported over 70 per cent of its output. The incentive offered under this scheme included a five-year tax holiday, duty-free access to imported inputs, machinery and equipment, and foreign currency loans.

In addition to monetary and fiscal incentives, the Export Development Board, as facilitator of the National Export Plan, organized seminars and workshops for exporters in areas such as export procedures, marketing, packaging, product development, and new markets. Assistance was provided to selected exporters to participate in trade fairs and exhibitions abroad. With a view to streamlining import/export procedures, the Board, in association with the State Gem Corporation and Sri Lanka Customs, set up a Diamond Centre at the Colombo International Airport. A Post Harvest Technology Unit was also established for fruits and vegetables in order to improve quality.

Sri Lanka's first international trade fair, "EXPO 92", was held in 1992. It offered 340 stalls exhibiting a wide range of traditional and non-traditional products and services from 23 broad sectors, and attracted 3,600 overseas buyers and investors from 46 countries.

The incentives, policies and measures described above were not as effective as they should have been due to weaknesses and shortcomings in the macro-economic environment and deficiencies on the supply side. The Sri Lanka rupee is said to be overvalued with respect to both trading partners as well as competing countries. The degree of overvaluation is subject to debate. The real exchange rate of the declined by about 10 per cent against the dollar from 1989 to 1991; in other words, Sri Lanka became less competitive by about 10 per cent in this two-year period. Exchange control has been gradually relaxed over the last decade; a further relaxation would result in some depreciation of the currency, which would be favourable to exporters. The Government has recently moved towards full convertibility of the currency on current account, and intends to move towards achieving Article VIII status for the country with

IMF, when there would be full convertibility on capital account as well. The exchange rate would then be determined by market forces, which would be an important step in attracting further foreign direct investment.

Fiscal incentives have also been extended to exporters of non-traditional products in the form of tax holidays. These are said to create anomalies in the overall incentive structure. Sri Lanka has been granting tax holidays for the past 40 years. It has been said that promotion of exports through a policy framework that ensures a level playing field and market discipline should be a given high priority on the policy agenda. The Taxation Commission recommended the abolition of tax holidays, in favour of a lower broad-based tax regime, to achieve high rates of savings and investment and a high degree of allocative efficiency. The 1994 budget decided to do away with tax holidays for new exporters or new Board of Investment ventures in the future. An uniform tax scheme for Board of Investment ventures and non-traditional exporters at a preferential corporate tax rate of 15 per cent over 20 years was announced.

The domestic inflationary pressures have been detrimental to Sri Lanka's export competitiveness and private sector development. The annual inflation rate has been around 12-14 per cent, which is higher than in competing countries. High inflation has led to high interest rates in turn, an additional burden that has become a major problem for Sri Lankan exporters. The high cost of borrowing has been the subject of many representations to the Government, and led it to permit off-share borrowing for exporters at international rates; but this caused problems of monetary management, and the off-share borrowing facility was withdrawn. Foreign exchange loan facilities are, however, available, i.e. they can be granted by commercial banks from the foreign currency available in their domestic units, such as foreign currency accounts. The Government has also permitted exporters to hold foreign exchange accounts whereby they can have access to foreign exchange loans at the world market rate.

The economic infrastructure is inadequate to support large-scale export-led industrialization and rapid foreign direct investment. There are gaps in power, transport, highways and telecommunication facilities. The State has tried to interest the private sector, both local and foreign, in developing the infrastructure, but with limited results. There is also a lacuna in technical and managerial skills for export-led industrialization.

Foreign direct investment (FDI) is one of the mechanisms by which the industrial structure can be transformed and diversified. It brings in not only capital, but also expertise and markets. FDI has been increasing over the past four to five years, but is still inadequate to make a significant impact on industrial production. Two export processing zones were initially set up, and two more have been declared open recently, but they appear to be making slow progress.

Sri Lanka was the first of the South Asian countries to actively seek FDI, once it had started to liberalize its economy from 1977 onwards. Generous concessions and incentives were made available to foreign investors, such as a 15-year tax holiday, concessionary rates of tax thereafter for another 15 years, exemption from tax on dividends and royalties, exemption from income tax of foreign employees, duty-free imports of raw materials, plant, machinery, equipment, etc., exemption from exchange and other controls affecting trade. However, in spite of generous concessions, FDI has been insignificant, in comparison to East and South-East Asia. In addition, most of the investments were in the garments industry, and very little in industries such as electronics such. There seems to have been an element of "quota hopping" in investments in garments.

It appears that incentives and concessions are not the main enticement of FDI; other factors, such as infrastructure, skills and stability, may also play a role. In the 1994 budget the Government abolished tax holidays for new ventures and replaced them by a preferential rate of corporate tax of 15 per cent over 20 years. It has been the experience of the East and South-East Asian countries that export growth is directly linked to the inflow of FDI, and the Sri Lankan Government is determined therefore to attract more such investment.

There were important supply-side factors that inhibited export-oriented industrialization, including: inadequate research efforts and marketing skills; insufficient attention to quality, design, and packaging; underdeveloped capital markets; and the lack of a dynamic industrial class.

Poor market information and lack of continued and regular contacts with markets were perhaps two of the most severe drawbacks to export development. These drawbacks have been rectified to a large extent through the efforts of the Department of Commerce and the Export Development Board. It is only very recently that attempts have been made to develop trading houses on the pattern of Japan and the Republic of Korea.

Preshipment credit was popular among Sri Lankan exporters, since it was cheaper than an overdraft from a commercial bank. However, competing countries were able to obtain their preshipment credit at more advantageous rates. Underdeveloped capital markets also acted as a constraint. Banks are security conscious and provide quick loans only to known customers, and not purely on the basis of confirmed orders. The Sri Lanka Export Credit Insurance Corporation did provide guarantees to banks, but banks sometimes insisted on security and collateral over and above the corporation guarantees. This was a constraint to new and small exporters, who were not considered creditworthy. Banks were not fully geared to project evaluation and moreover formulation of project proposals by potential industrialists required further refining.

A recurring theme has been the weakness of domestic entrepreneurs, stemming from an inadequate accumulation of productive capital by the Sri Lankan business class. Prior to 1977 the capital base was insufficient to finance large-scale industrialization. In spite of all the incentives provided since then, private sector participation industry has not been very impressive. Even during 1986-1989, most private investment took place in sectors where risks were and there were prospects of a quick return. In fact, the Government found it necessary to keep going the loss-making and inefficient public enterprises during 1977-1986, since there was no other productive base to replace it. These impediments can be considered as market failures on the supply side which have been a drag on rapid export development.

There was also a problem relating to the supply of technical manpower and resources for research and development. The lack of a skilled manpower base has probably discouraged skill-intensive FDI.

A weakness in the performance of the Sri Lankan manufacturing sector, was that too much emphasis was placed on trade policy *per se*. There was no industrial strategy to rectify market failures and to intervene selectively. It was only in 1987 that an industrial strategy was formulated. The theory of comparative advantage envisages that factor endowments alter over time, so that their comparative advantage shifts from current to new patterns of specialization. In Sri Lanka, this would have meant a shift from labour-intensive to capital and skill-intensive products. The lack of an industrial strategy for many years prevented industry from progressing through these stages of comparative advantage. It is hoped that the new industrial policy will enhance industrialization and exports.

Small and rural industries

The promotion of small and medium-sized industries was intended to be part of the post-1977 outward-looking and export-led strategy. The combined factory-based small-scale sector and the rural-*cum*-informal sector is of major importance to the economy, in terms both of its manufacturing value added and of its employment-generating capacity. However, soon after the liberalization process initiated in 1977, a number of small and medium-enterprises producing matches, soap, salt, coir wire, and soft drinks, were wiped out by a combination of import liberalization, "dumping", and high interest rates. In addition, rural industries producing handlooms, treacle, jaggery, coconut toddy, copra, and sugar cane, which were popular cottage industries, witnessed a decline in production and some of them were wiped out. In 1977 there were 111,000 looms in the country, but by 1986 the number had been reduced to 15,000.

Many of the problems faced by small enterprises, were due to the fact of their being small, which meant that they could not take advantage of liberalization or were actually harmed by it. The Ministry of Finance and Planning found many of these industries "to be severely underprotected".

The incentives for export promotion did not have any impact on small ventures. Although it was expected that the benefit of the incentives would be passed down to the subcontractors, certain market imperfection, prevented the small industries from exploiting such benefits. In the early years after liberalisation, large buyers were not keen to operate through the subcontracting exchange. However in the late 1980s there was some subcontracting, particularly in the garments industry, brought about by the 60 per cent duty that was then imposed on imports of garment ancillaries.

There were also regional disparities in the geographical distribution of manufacturing production. Most enterprises were based around Colombo, and the 200 garment factories project for areas outside Colombo, was realized only in late 1991. With this project, a conscious effort was made to disperse establishments producing garments for export over to the remotest areas of the country, and especially in undeveloped or underdeveloped areas. The "most difficult" areas receive the highest export quotas, the "difficult" ones the next highest and the "not difficult" ones the lowest. Companies establishing these rural factories were entitled to all the incentives and concessions granted to enterprises in the export processing zones. However, the project has met with limited success, due to problems of quota allocation and problems of infrastructure and management.

The Export Development Board (EDB) provides financial assistance to small-scale export-oriented manufacturers. The maximum amount payable is SL Rs100,000, at 7-8 per cent interest. The Board also provided assistance to enable some 100 small firms to take part in EXPO 92, by providing for the printing of brochures and stall design.

The concept of export production villages (EPV) was launched in 1981, with the aim of involving the entire village in production for export. The operational EPV companies supplied products/services to the value of SL Rs21 million in 1993, for export through established export firms. The products exported were pineapples, cashew, spices, ekels, umbrellas, reed baskets and reedware. The Export Development Board made, up to the end of 1991, incentive payments to the EPV companies of 2 per cent on the sales/purchases made by those companies or the export firms.

The EPVs gained strength in the 1980s; and from 1981 to 1986 35 EPVs were set up. However, various problems, such as unsettled conditions in various parts of the country, weak management and disputes between and EPV and exporters led to a number of closures. By the end of 1992/early 1993 there remained only nine EPVs. Of the turnover of

SL Rs21 million in 1993, 75 per cent came from two products, viz reed baskets and cashew. Hence this innovative venture into rural production and exports cannot be said to have been a success. Weak management, lack of the necessary entrepreneurial skills, and difficult political conditions in the late 1980s, all contributed to this outcome.

III. OUTLOOK FOR EXPORT EXPANSION TO THE YEAR 2000

The Government in 1992 declared a "Decade of Exports (1992-2001), the strategies for which were worked out by a National Steering Committee, chaired by the Prime Minister. The objectives of the Decade were: to maximize foreign exchange earnings through exports, in order to meet import obligations, service the external debt and minimize dependence on foreign aid; to diversify the export structure toward industries and services, so as to overcome dependence on traditional export commodities; to increase the value added component of all exports, particularly through backward integration which would promote export-oriented production in the provinces to and so reduce the disparities between urban and rural incomes; and to diversify markets and thereby overcome the present concentration on certain markets. The export target for the decade was fixed at a growth of 10 per cent per annum in volume terms.

The strategies for selected products/services were to be developed on the basis of Sri Lanka's comparative advantages, with a view to maximizing value added, while exploiting emerging market opportunities. Suitable macro-economic policies (exchange rate, monetary, financial, fiscal, tariff, labour, etc.) were to be formulated to improve export competitiveness. Efforts were to be made to develop the capital market and increase local and foreign investments. Programmes for export promotion - trade information, trade representation, market research, and special arrangements with various trading blocs - were to be intensified. Sri Lanka was committed to the establishment of the South Asian Preferential Trading Arrangement (SAPTA). Measures were to be taken to simplify exchange control, customs, loan approvals, land lease/purchases and other procedures. Productivity in different sectors was to be improved, especially by the introduction of suitable technologies and improvement of management practices. Sectoral manpower requirements were to be identified and training provided. Infrastructure facilities were to be developed/improved and efforts made to intensify the support and export capabilities of the provinces.

Nothing of the above can be said to be new or original, but if there was one objective which did not figure prominently before, it was the emphasis on dispersing export-oriented production to the provinces. Even this had been tried in a limited way before, through export production villages, but as noted above the results were disappointing. Efforts had also been made earlier to tackle the exchange rate and other macro-economic policies, to intensify promotion of exports through market information, market research, etc., to simplify exchange control and customs procedures, and to develop infrastructure facilities.

As regards the impact of SAPTA, which has had manyu teething troubles getting started, it is likely to be limited. Of the 10 major exports of Sri Lanka, for example, 9 (including tea, garments, rubber and petroleum by-products) have larger markets outside South Asia. Intra-trade is only 3 per cent of SAARC's total trade, and there are limited complementarities in the trading structures of the seven member countries; although there may be larger ones in the future through the establishment of joint ventures, etc. It is surprising that the strategy makes no reference to the potential for Sri Lanka in the East Asian and South-East Asian region or to the impact of the Uruguay Round. There are many trade and investment complementarities in the wider fast-growing Asia-Pacific region, particularly in East and South-East Asia, to which there is no reference. It is too early to analyse in depth - until one has access to the Schedules of Commitments - the impact of the Uruguay Round on countries like Sri Lanka. However, the impact of phasing out the Multi-Fibre Arrangement and the system of textile quotas cannot be ignored in an export strategy for Sri Lanka, since garments are the country's leading export, accounting for almost half of total export earnings. The effect of the tariff reductions agreed in the Uruguay Round should also have been taken into account; reductions in MFN-tariffs could erode the value of preferences, which Sri Lanka currently enjoys, with effects on the competitiveness of some export products.

The outlook for export expansion up to the year 2000, therefore is clouded by certain imponderables. Garments exports may not be much affected during that period, since the bulk of such exports will remain under quota until the year 2005, when the most sensitive categories which Sri Lanka exports would be phased out. Thereafter, however, once the textile quotas are abolished, MFN tariffs reduced, thus eroding preferential margins under the GSP, the picture may be different.

The slight doubts expressed about the garments industry in the post-Uruguay Round period stem from the fact that there are few backward linkages in the garments industry, in spite of many efforts. As a result, the bulk of the textiles and ancillaries used in the garments sector are imported. In recent years, garments have been the leading export item and textiles the leading imports. Whether this situation can be maintained in the post-Uruguay Round period is questionable. Consequently, efforts to attract investments into the textiles sector in the next few years will have to be redoubled in order for Sri Lanka to maintain its position in the forthcoming era of free trade in garments.

VIET NAM'S ECONOMIC DEVELOPMENT AND TRADE ON THE WAY TO RENOVATION

Nguyen Thai Binh[*]

I. DEVELOPMENT FROM 1975 TO 1993: OBJECTIVES AND STRATEGIES

The economy since unification

After reunification of the country, the main objective of policy was to create a centrally planned economy with state control. The decade since reunification up to 1986 was a period of serious difficulties and major challenges. The reforms to move from a centrally planned to a market-based economy, mapped out at the end of 1986, brought about profound changes in the pattern of socio-economic activity. These changes have become more marked since 1989, when the tempo of reform was accelerated.

A major achievement, of great importance, is that Viet Nam has been overcoming the socio-economic crisis which emerged in the late 1970s and early 1980s with skyrocketing inflation. The economy has not only stood firm but also recorded outstanding achievements, ridden out stagnation and recession, and achieved a fairly high growth rate over the past three years. Inflation has receded from 67 per cent in 1991 to 17.5 per cent in 1992 and only 5.2 per cent in 1993.

The growth of GDP has averaged 7.2 per cent (the target for 1991-1995 is 5.5-6.0 per cent). Agricultural production has developed comprehensively and the problem of food supplies has been solved satisfactorily: food outputd in 1993 was nearly 25 million tons, surpassing the target set for 1995. Industrial production has increased by an annual average of 13 per cent, higher than the 1991-1995 target of 8-10 per cent. Production capacity has also increased in certain major sectors and for particular items such as electricity, crude oil, steel and cement. The communication network has expanded rapidly, with new technological equipment. Construction, transport, commerce, tourism and other services have all been developed, and various other changes have been taken place in the economic structure, including the emergence of new branches of production and businesses.

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Economic relations with the rest of the world have been broadened through diversification and multilaterization. Viet Nam has overcome the consequences of the sudden reduction of its traditional markets and found new partners for its new surpluses. There has been important progress in integration into the world market and economy. During the three years 1991-1993, and in spite of a very difficult situation, foreign trade turnover increased from $4.3 to $6.3 billion (almost 50 per cent), and the volume of exports rose by an average of 20 per cent, which was relatively high.

The steady increase in exports is particularly worthy of note: they rose in volume by 14 per cent in 1991, 18 per cent in 1992 and 21 per cent in 1993. For the first time in many years, a favourable balance of trade was achieved in 1992. The commodity structure of exports, however, has been a matter of great concern. In 1993 agricultural and forest products accounted for 36.2 per cent of total exports, marine products for 12.3 per cent, light industrial products and handicrafts for 15.5 per cent, and heavy industrial products and minerals (basically crude oil) for 37.0 per cent. Rice (1.7 million tons) and wood and timber (including rough processing and products made of wood) predominate among the agricultural and forest products and crude oil (6.2 million tons) among the heavy industrial products and minerals. The main items imported are materials and fuel, equipment, machinery, and processed consumer goods.[1]

Viet Nam has trade relations with 104 countries, its main trading partners being Singapore, Japan and Hong Kong. In the 1980s, CMEA countries (mainly the former Soviet Union) accounted for 80 per cent of its trade turnover, but in the past three years, Asian countries have accounted for up to 80 per cent of total trade turnover. This market reorientation has been a "must" for Viet Nam, in view of the collapse of the former CMEA markets and reflects also the results of the country's policy of multilaterization of its foreign economic relations. With regard to foreign investment, in the five years since promulgation of the Law on Foreign Investment in December 1987, more than 800 investment projects have been granted licences, with a total authorized capital of over $8 billion, most of the capital coming from foreign companies in over 40 countries and territories.

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[1] See annexes I and II, respectively, for further commodity detail of exports and imports.

Government objectives and strategy

The strategy up to the year 2000 has been formulated in accordance with the following development approach:

"Socio-economic development along the road of consolidating national independence and building socialism in Viet Nam constitutes the process by which the people become prosperous and the country strong, advancing towards modernization in a society where the people are masters of their own destiny, where compassion, cultural values and discipline prevail, where oppression and injustice are banned and where everyone enjoys a prosperous, free and a happy life ".

The broad objectives of the strategy are:

- To overcome immediately the acute difficulties which emerge from the crisis and to stabilize the socio-economic situation;

- To strive to eradicate famine, reduce the numbers of the poor, solve the employment problem, guarantee basic needs, improve the people's material, cultural and intellectual life, gradually accelerate domestic capital accumulation, attract external resources to the maximum extent possible; strengthen infrastructure and radically transform the economy through industrialization.

The strategy notes that the achievements in recent years in the economic and social areas, with the broadening and intensification of the development cooperation with other countries and international organizations, have enabled the country to take further steps to industrialize and modernize the economy, create more employment, accelerate economic growth and improve people's material and cultural life.

Specific targets have been set for the 1990s:

- Annual GDP growth: 6.9-7.5 per cent;
- Anual growth of agricultural output: 4.0-4.2 per cent;
- Annual growth of industrial output: 10.0-12.5 per cent;
- Cumulative export value (1991-2000): $37.0 billion;
- Cumulative foreign investment: $17.0 billion.

II. TRADE POLICY

Reforms relating to economic planning in general and to prices, the exchange rate, finance, banking, labour, renumeration, land, etc., have created a more favourable environment the enterprises to bring into full play their dynamism, autonomy and self-responsibility in production and business.

The basis of trade policy is to strongly encourage exports, strictly control imports, multiply the number of trading partners and diversify business relations. Along with the reform in economic management from a centrally planned to a market-based economy, reforms have been made in the trading system, step by step, by moving from the control of trade through quantitative measures such as quotas, export and import licences, and export and import business licences, to using economic measures such as taxes, credit policy and interest rates. Moreover, state management has, from time to time, been adjusted to respond to situations such as calling for resolution of such questions as who should be entitled to carry out export and import activities and what products are to be traded and under what conditions?

Under existing regulations, any entrepreneur who wishing to carry out direct export and import transactions (including business transactions, and signing and executing business contracts) must first obtain an export and import business licence issued by the Ministry of Trade. The Ministry will deliver such licences on condition that there is a juridical person established in accordance with existing laws (including those on state enterprises, joint-stock companies and shareholder companies, including private businesses) and that there is a working capital of at least $200,000. An exception is made for companies in mountainous regions which have economic difficulties, and for trading in goods which are encouraged for export. For these companies, the working capital requirement is a minimum of $100,000.

In order to promote exports, enterprises are given the right to export their products and to import materials necessary for their production. Over 1,000 entrepreneurs have received export and import business licences, issued by the Ministry of Trade.

The existing regulations allow the free import and export of goods, except for:

- Those for which are imports and exports totally are banned;
- Goods which are subject to quotas, imposed either by Viet Nam or by its trading partners on the basis of bilateral agreements;
- Goods for special uses, which must be approved by the relevant Ministries before they can be imported.

In addition, the State, from time to time, may decide that exports or imports of a number of important items be centrally imported or exported through certain enterprises so as to ensure a balance between demand and supply and stabilize market prices.

From 1989 to 1994, along with the reform in the export and import mechanism, the number of items subject to quota was considerably reduced. At present, there are only a few items which are subject to quota, including textiles and garments exported to the European Union, Canada and Norway, and sliced cassava to the European Union. The Government's general target is to liberalize gradually foreign trade, which is mainly regulated by a reasonable tariff system, by abolishing non-tariff and administrative measures. The system of import-export licensing will also be further simplified and there is no need for export licences for items which are encouraged for export. All that will be required is completion of a customs declaration.

Foreign-owned enterprises, including joint ventures and enterprises with 100 per cent foreign-owned capital, are entitled to export their own products and to import the machinery, equipment and materials required for initiating production and for their annual own business needs.

III. OUTLOOK FOR EXPORT EXPANSION TO THE YEAR 2000

The achievements cited above have proved that the policy guidelines for reform set out by the 6th Party Congress have been correct and that the steps taken in this process have been basically appropriate.

Experience of the past three years shows that only through strong development in external economic relations can the country's comparative advantage be brought into full play, creating conditions for rapid growth on the basis of self-reliance. At present, Viet Nam's traditional markets are gradually being restored and imports now satisfy the fundamental consumption and development needs of the country.

Together with a maximum mobilization of domestic resources, external economic relations must play an important role in the achievement of development objectives. All means of promoting the exports of other goods have to be used. Units specializing in merchandise trade and services will be reorganized so as to move towards the establishment of strong state-run enterprises, large-scale multi-sector joint ventures, specialized trade associations and big corporations able to compete internationally. A continuous increase in exports is the only way to bring about capital accumulation for industrialization and development. Besides giving widespread authorization to enterprises to export their products, there is need to introduce favourable policies for credit and export-import insurance, and for investment in the production of export commodities, particularly agricultural and maritime products processed directly in rural areas.

Annex I

EXPORTS OF MAJOR COMMODITIES, 1986-1992: QUANTITY, VALUE AND UNIT VALUE

Commodity	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*[a]
Agriculture and cash crops							
Rice							
Volume (000 tons)	-	-	-	1,425	1,625	1,033	1,850
Convertible area	-	-	-	4,405	1,455	989	1,850
Non-convertible area	-	-	-	20	170	41	
Value (US$ million)	-	-	-	319	288	229	420
Convertible area (US$)	-	-	-	317	272	225	420
Non-convertible area (US$)	-	-	-	2	16	4	
Non-convertible area (TRR)	-	-	-	4	39	9.2	
Unit value							
Convertible area (US$/ton)	-	-	-	226	187	227	229
Non-convertible area (TR/ton)	-	-	-	200	229	207	
Tea							
Volume (000 tons)	11	10	6	15	14	10	10
Convertible area	2	2	3	3	2	10	10
Non-convertible area	9	8	3	12	12		
Value (US$ million)	9	7	6	11	10	13.7	13.7
Convertible area (US$)	4	2	3	3	2	13.7	13.7
Non-convertible area (US$)	5	5	2	8	8		
Non-convertible area (TRR)	13	14	4	19	19		
Unit value							
Convertible area (US$/ton)	2,000	1,000	1,000	1,000	1,000	1.37	13.7
Non-convertible area (TR/ton)	1,444	1,750	1,333	1,583	1,583		
Coffee							
Volume (000 tons)	13	27	30	56	38	93.5	95
Convertible area	5	12	16	36	28	92.5	95
Non-convertible area	13	15	14	20	30	1.0	
Value (US$ million)	8	26	28	49	50	75.2	87
Convertible area (US$)	2	24	25	31	25	74.3	87
Non-convertible area (US$)	6	2	3	18	25	0.9	
Non-convertible area (TRR)	14	4	7	43	60	2.0	
Unit value							
Convertible area (US$/ton)	400	2,000	1,563	861	893	803	800
Non-convertible area (TR/ton)	1,077	267	500	2,150	2,000	2.0	
Rubber							
Volume (000 tons)	36	41	38	58	60	62.9	65
Convertible area	6	6	6	20	20	62.9	65
Non-convertible area	30	35	32	38	40		
Value (US$ million)	13	15	17	26	29	49.6	46
Convertible area (US$)	2	6	6	14	16	49.6	46
Non-convertible area (US$)	11	9	11	12	13		
Non-convertible area (TRR)	28	22	26	30	32		
Unit value							
Convertible area (US$/ton)	333	1,000	1,000	700	800	788	700
Non-convertible area (TR/ton)	933	629	813	789	800	788	

Continued

Annex I (continued)

EXPORTS OF MAJOR COMMODITIES, 1986-1992: QUANTITY, VALUE AND UNIT VALUE

Commodity	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992e*
Mining and energy							
Petroleum							
Volume (000 tons)	-	235	680	1,517	2,600	3,917	5,400
Convertible area	-	235	680	1,517	2,600	3,917	5,400
Non-convertible area	-	-	-	-	-		
Value (US$ million)	-	330	79	200	390	581.4	790
Convertible area (US$)	-	30	79	200	390	581.4	790
Non-convertible area (US$)	-	-	-	-	-		
Non-convertible area (TRR)	-	-	-	-	-		
Unit value							
Convertible area (US$ ton)	-	128	116	132	150	148	147
Non-convertible area (TR/ton)	-	-	-	-	-		
Coal							
Volume (000 tons)	752	300	700	575	1,092	1,173	1,580
Convertible area	550	182	650	546	1,,075	1,173	1,580
Non-convertible area	202	118	50	29	17		
Value (US$ million)	31	11	14	22	38	48.3	65
Convertible area (US$)	29	10	13	21	338	48.3	65
Non-convertible area (US$)	2	1	1	1	0		
Non-convertible area (TRR)	5	2	2	2	1		
Unit value							
Convertible area (US$/ton)	53	55	20	38	35	41	41
Non-convertible area (TR/ton)	25	17	40	69	40		
Marine products							
Volume (000 tons)	11	12	13	15	29	67	72
Convertible area	11	12	13	15	29	67.5	72
Non-convertible area	-	-	-	-	-		
Value (US$ million)	100	113	124	133	220	285	300
Convertible area (US$)	95	113	124	133	220	285	300
Non-convertible area (US$)	5	-	-	-	-		
Non-convertible area (TRR)	12	-	-	-	-		
Unit value							
Convertible area (US$/ton)	8,636	9,417	9,538	8,867	7,586	4,3	4,2
Non-convertible area (TR/ton)	-	-	-	-	-		
Agricultural and Forestry products							
Value (US$ million)	151	201	282	319	322	441	438
Convertible area (US$)	110	138	197	211	203	440	434
Non-convertible area (US$)	41	6	85	108	119	1	4
Non-convertible area (TRR)	105	160	205	260	285	2	10
Handicrafts and light industrial goods							
Value US$ million)	65	30	18	20	20	250	240
Convertible area (US$)	65	30	18	20	20	224	232
Non-convertible	-	-	-	-	-	26	8
Non-convertible area (TRR)	-	-	-	-	-	63	20

Continued

Annex I (continued)

EXPORTS OF MAJOR COMMODITIES, 1986-1992: QUANTITY, VALUE AND UNIT VALUE

Commodity	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*[a]
Other							
Value (US$ million)	117	167	166	222	364	69	50
Convertible area (US$)	-	77	-	28	70	69	50
Non-convertible area (US$)	117	90	166	194	295		
Non-convertible area (TRR)	299	229	400	466	708		
Grand total							
Value (US$ million)	494	599	733	1,321	1,731	2 042	2 450
Convertible area (US$)	307	430	465	978	1,256	2010	2438
Non-convertible area (US$)	187	169	268	343	476	322	12
Non-convertible area (TRR)	476	431	644	824	1,144	77	30
Convertible area (US$ ton)	-	-	-	226	187	227	229
Memo item:							
Transferable rouble/US$	2.5	2.5	2.4	2.4	2.4	2.4	2.4

Source: IMF and World Bank, from data provided by the Vietnamese authorities.

[a] Estimated.

Annex II

IMPORTS OF MAJOR COMMODITIES, 1986-1992: QUANTITY, VALUE AND UNIT VALUE

Commodity	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*[a]	*1992*[b]
Petroleum	2,028	2,100	2,200	2,305	2,400	2,572	3,000
Quantity (000 tons)							
Convertible area	-	-	-	-	1,080	2,572	3,000
Non-convertible area	2,028	2,100	2,200	2,305	1,320		
Value (US$ million)	193	208	232	187	356	485	570
Convertible area (US$)	-	-	-	-	236		
Non-convertible area (US$ million)	193	208	232	187	120		
Non-convertible area (TR million)	492	531	556	449	228		
Unit value							
Convertible area (US$/ton)	-	-	-	-	218.5	190	190
Non-convertible area (TR/ton)	242.6	252.9	252.7	194.8	218.2		
Fertilizers							
Quantity (000 tons)	2,745	2,802	2,520	2,956	2,233	2,607	2,400
Convertible area	686	702	400	506	1,161	2,425	2,400
Non-convertible area	2,059	2,100	2,120	2,450	1,072	182	
Value (US$ million)	220	226	209	204	210	2467	237
Convertible area (US$)	94	98	72	46	130	236	
Non-convertible area (US$ million)	126	128	137	158	80	10	
Non-convertible area (TR million)	321	327	328	380	193	24	
Unit value							
Convertible area (US$/ton)	137.0	139.6	180.0	90.0	112.0	98	98
Non-convertible area (TR/ton)	155.9	155.7	154.7	155.1	180.0	136	
Coffee							
Quantity (000 tons)	602	665	803	373	200	113	250
Convertible area	320	380	453	-	-	51	250
Non-convertible area	282	285	350	3373	200	62	
Value (US$ million)	124	185	308	43	23	25.2	85
Convertible area (US$)	96	157	271	-	-	18	85
Non-convertible area (US$ million)	28	28	37	43	23	7	
Non-convertible area (TR million)	71	72	88	104	55	17	
Unit value							
Convertible area (US$/ton)	300.0	413.2	598.2	-	-	350	340
Non-convertible area (TR/ton)	251.8	252.6	251.4	278.8	275.0	274	
Cotton textiles							
Quantity (000 tons)	32	29	27	29	30	20	65
Convertible area	-	-	-	-	-	-	20
Non-convertible area	32	29	27	29	30		
Value (US$ million	10	9	9	8	10	32	
Convertible area (US$)	-	-	-	-	-	-	
Non-convertible area (US$ million)	10	9	9	8	10		
Non-convertible area (TR million)	25	23	21	20	23		
Unit value							
Convertible area (US$/m)	-	-	-	-	-		
Non-convertible area (TR/m)	781.	793.1	777.8	689.7	766.7	1.6	

Continued

Annex II (continued)

IMPORTS OF MAJOR COMMODITIES, 1986-1992: QUANTITY, VALUE AND UNIT VALUE

Commodity	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*[a]	*1992*[b]
Raw cotton							
Quantity (000 tons)	41	48	50	52	62	31	5
Convertible area	-	-	-	-	-	31	5
Non-convertible area	41	48	50	52	62		
Value (US$ million)	21	24	27	31	38	50	8
Convertible area (US$)	-	-	-	-	-	50	8
Non-convertible area (US$ million)	21	24	27	31	38		
Non-convertible area (TR million)	53	62	65	75	91		
Unit value							
Convertible area (US$/ton)	-	-	-	-	-		
Non-convertible area (TR/ton)	1,292.7	1,291.7	1,330.0	1,442.7	1,467.7	1,612	1,600
Sugar							
Quantity (000 tons)	55	85	50	70	60	20	30
Convertible area	-	-	-	-	-	20	30
Non-convertible area	55	85	50	70	60		
Value (US$ million)	3	5	3	4	3	5	9
Convertible area (US$)	-	-	-	-	-		
Non-convertible area (US$ million)	3	5	3	4	3		
Non-convertible area (TR million)	8	12	7	10	8		
Unit value							
Convertible area (US$/ton)	-	-	-	-	-	250	300
Non-convertible area (TR/ton)	145.5	141.2	140.0	142.9	133.3		
Unclassified (US$ million)	550	484	625	1,191	1,132	1 262	1 491
Convertible area (US$ million)	263	210	260	939	842	1,159	1 491
Non-convertible area (US$ million)	287	274	365	252	290	103	
Non-convertible area (TR million)[c]	732	699	877	6053	695	248	
Total (US$ million)	1,120	1,142	1,412	1,670	1,772	2,105	2,400
Convertible area (US$ million)	453	465	603	985	1,208	1 985	2 400
Non-convertible area (US$ million)	667	677	809	685	561	120	
Non-convertible area (TR million)	1,702	1,726	1,942	1,643	1,353	289	
Memorandum item:							
Transferable rouble/US$	2.5	2.5	2.4	2.4	2.4	2.1	

Source: IMF and World Bank, from data provided by the Vietnamese authorities.

NOTE: From 1991, the transferable rouble is no longer used.

[a] Preliminary.
[b] Estimated.
[c] Consists mainly of capital and intermediate goods.

Annex

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